# Bank Hapoalim

Annual Report

2018

# Contents



The Bank has received approval from the Banking Supervision Department to publish the annual financial statements on a consolidated basis only. Note 34 to the Financial Statements contains the stand-alone condensed financial statements of the Bank. Stand-alone data concerning the Bank is available in hard copy upon request, or on the Bank's website at www.bankhapoalim.co.il.

This is a translation of the Hebrew report and has been prepared for convenience only.
In case of any discrepancy, the Hebrew version will prevail.

# Letter from the Chairman of the Board of Directors

This introduction to the annual report is an opportunity for me to present my perspective on the position of the Bank. Our business results and financial data are laid out in the hundreds of pages that follow, and I will focus on the insights that I believe can be gleaned from this data, against the background of the market reality in which we operate.

The foremost challenge confronting the Israeli and global banking system today is the need to understand and prepare for the future of banking. The change will not happen overnight; it is a process, already underway, that will culminate in the transformation of retail banking, and subsequently of corporate banking. The strategic discussions of the Board of Directors and the Board of Management this year were focused on this task. We endeavored to imagine the form that banking would take in the future. Of the five possible scenarios for the future of banking described in the Annual Review of the Banking System in Israel, published by the Banking Supervision in May 2018 based on materials from the Basel Committee, we decided to adopt the Distributed Bank scenario as the point of reference for our retail-banking strategy. In the not-too-distant future, according to this scenario, in order to remain competitive in the retail-banking space, banks will need to rely on innovative, rapid, efficient digital-technology infrastructure; doing so will enable us to ensure that the Bank's direct channels continue to be customers' first choice for their day-to-day needs. We will use Big Data to create value offers for customers, allowing the bankers at our branches to focus on advising customers and guiding them through complex transactions that are beyond the scope of daily banking activities.

Spearheading innovation at the Bank is our Innovation Division, which, together with the Technology Division, identifies trends, developments, and opportunities in the digital arena. In this way, we successfully developed BIT, the payment application that quickly captured a spot at the top of the chart of payment applications in Israel, significantly ahead of its competitors. We are launching a platform for the production of digital guarantees, and we have just introduced a pilot project in which a bank account can be opened through an online application, without visiting a brick-and-mortar branch. Total visits to the Bank's websites and applications are already at approximately a quarter of a billion annually. The digital channel has become the key service channel for the customers of the Bank, and its proportion is expected to grow. The Bank ranked first in the most recent survey on service published by the Banking Supervision in terms of customer satisfaction from the quality of digital services offered on the site. There is immense additional potential in this area, given that digital channel adoption rates at leading banks globally are higher than the prevalent levels in the Israeli banking system. Every increase in the digital adoption rate relieves the branches of some of their tasks and makes daily banking more accessible and more pleasant. The developments in the banking industry will require us to instill agile development processes and modernize our core banking systems. In the context of the digital revolution, we must navigate carefully between the essential need to become more efficient through new technologies and the desire to ease this process for population segments who need assistance with the transition from traditional banking methods to the banking of tomorrow, which involves

the transition from branch to smartphone. We have long-standing customers who have been loyal to the Bank for dozens of years, and we are committed to helping them continue to enjoy access to the Bank's services in the future. We will continue to merge branches for the sake of efficiency, but we will do so with sensitivity to the needs of the community and of our customers.

The Bank is still coping with the burden of the US investigations. These investigations led to significant expenses this year, and demanded valuable management attention and resources, and in the fourth quarter, we added a total of NIS 922 million to the provision for penalties. We also noted that the overall amounts that the Bank Group will pay in the framework of resolutions with the US authorities (to the extent reached) are likely to be significantly higher than the present provision. For reasons of conservatism and in coordination with the Bank of Israel, the Board of Directors of the Bank did not pay cash dividends for the last three quarters of 2018, with no change to the Bank's dividend distribution policy. We will continue to act resolutely to bring this matter to conclusion as quickly as possible. During its involvement in the investigations, the Bank has continued to demonstrate outstanding performance in its routine core business.

We are applying the lessons learned from the events of the past. The Bank today is focused on risk management, and on corporate governance, compliance, and auditing. This is a challenge we all share, though it is concentrated in the work of the Legal Division, Risk Management Division, and Internal Audit Division. We accord high importance to adherence to the law and to regulatory requirements (in Israel and elsewhere), while strictly maintaining ethical rules and upholding clear standards of worthy conduct. When we met with the Parliamentary Committee of Inquiry into the Financial System's Conduct in Credit Agreements with Large Business Borrowers, we chose to present the changes that had been made at the Bank in the area of risk management and in corporate credit. We were first to appear before the Committee and to send a clear message that we had learned from the past and that the reality today is different.

In the near future, we will separate from the Isracard Group, as mandated by legislation. A prospectus for sale offering of Isracard shares was recently published. We are required to sell all of our holdings in the group by the beginning of 2021. Concurrently, of course, we are working intensively on developing alternative sources of revenue.

Our corporate social engagement continued to flourish this year. The employees of the Bank volunteered in the community on a massive scale; we took action in the areas of accessibility, financial freedom, and employment, all aimed at furthering the progress of the society in which we operate. We have maintained our monetary donations to third-sector institutions and to individuals, and we have adopted a new donation model: in the future, the Bank's donations budget will include a fixed component and a variable component linked to the profitability of the Bank. The objective is to continue to contribute to the community, while taking into consideration the interests of the Bank and its shareholders and adjusting the amounts donated to the ebb and flow of the Bank's performance.

The Arison Group sold part of its shares in Bank Hapoalim in late 2018, after relinquishing its control permit. Since then, the Bank has been a bank without a controlling core. We parted from Shari Arison, but we remain as committed as ever to the shared values embedded at the Bank over the course of more than two decades, including engagement with Israeli society, financial freedom, volunteering in the community, and corporate social responsibility. We thanked the directors from the Arison Group, Efrat Peled, Ido Stern, and Meir Wietchner, for their long service, during which they devoted their time, energy, and talent to the Bank and contributed significantly to its advancement and success.

The power of Bank Hapoalim derives from its employees. We are blessed with talented employees who are committed to the Bank, to its values, and to its business. These are the employees and managers at our branches, in our headquarters, in the various divisions, and at the call centers, who do their work devotedly and responsibly. The parties are preparing to hold negotiations for the purpose of signing a new employment agreement.

Special thanks to the Board of Management of the Bank, headed by Arik Pinto, for their resolute navigation and leadership in this fascinating and challenging time. You have demonstrated to all of us that leadership can be both decisive and sensitive.

I would like to express my gratitude to the members of the Board of Directors of the Bank. Over a brief period, the Board of Directors narrowed from fifteen members to seven. The long-standing members who left the Board of Directors were replaced by directors who have served for a shorter period, but have impressive business experience. Your responsibility, dedication, and commitment are admirable. The Board of Directors will soon expand, and we will welcome directors elected according to the appointment rules that apply to a bank without a controlling shareholder. I am confident that the Board of Directors in its new composition will continue to fulfill its mission of guiding the Bank's strategy and supervising its actions.

Finally, I would like to thank the customers of the Bank, who place their confidence in us and trust us with their finances. We will continue to serve you faithfully and guide you through the decisions you face at each stage of your lives. The banking of the future will transform the relationship between the Bank and its customers. It will enable us to communicate with you frequently through the digital channels, and make it possible for you to conduct your routine banking activities with ease and efficiency.

Sincerely yours,

**Oded Eran**
Chairman of the Board of Directors

March 17, 2019

# Bank Hapoalim

Report of the Board of Directors
and Board of Management

2018

## Contents

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# 1. General review, objectives, and strategy

## 1.1. Condensed description of the Bank

### General information

- Founded in 1921, the Bank constitutes a "banking corporation" and holds a "bank" license under the directives of the Banking Law. In 1983, within an arrangement formulated between the Israeli government and the banks, the shares of the Bank were brought under the control of the state. The Bank was privatized in 1997, and the controlling interest was transferred to Arison Holdings (1998) Ltd. and others. In November 2018, the Bank became a banking corporation without a controlling core.
- The Bank Group operates in Israel, in all of the various areas of banking and in associated activity in the capital market, through three main units: the Corporate Banking Area, the Retail Banking Area, and the Financial Markets and International Banking Area.
  - The Corporate Banking Area provides service to most of the Bank's business customers; activities with large corporate clients are conducted through sectors specializing in specific industries, while middle-market clients are served through Business Centers located throughout Israel, and through the branches of the Bank, which provide operational services to these customers.
  - The Retail Banking Area serves customers including households, private-banking customers, foreign residents, and small businesses. Service is provided through 225 branches, including a mobile branch serving customers at 22 locations (approximately half of which are retirement homes), and advanced digital branches offering the full range of banking services, as well as through a range of direct channels: broadly distributed self-service stations at branches and on customer premises, Poalim Online, Poalim Mobile, the Poalim by Telephone call center, Facebook, and smartphone applications. As part of the Bank's approach to service and social responsibility, the Bank considers accessibility to people with disabilities an essential issue and its duty as a business; within this service concept, all of the Bank's services have been made accessible to people with disabilities, and accessibility is taken into consideration in the development of new products and processes and in tailoring unique solutions for the Bank's customers.
  - The Financial Markets and International Banking Area oversees the activity of the Bank Group in most areas of the capital market, in Israel and overseas. This activity includes, among other matters, securities trading services (brokerage), securities custody, trading services in currencies and derivatives, research and consulting, services for financial-asset managers, management of investment portfolios, investment banking, underwriting, and issuance management.
- The international activity of the Bank Group includes the New York branch and representative offices, Bank Hapoalim Switzerland, and Bank Pozitif in Turkey, as well as relationships with banks around the world. International business banking is primarily conducted through the New York branch, which focuses on providing banking services to companies. In global private banking, the Bank has discontinued its activity outside Israel. In September 2017, the Bank decided to act to discontinue the activity of Hapoalim Switzerland. During the fourth quarter of 2018, in accordance with the sale agreement with Bank J. Safra Sarasin AG and Banque J. Safra Sarasin (Luxembourg) S.A., most of the customer assets in Switzerland and Luxembourg were transferred to the buyer.

### 1.2. Forward-looking information

Some of the information in these reports that does not refer to historical facts (even if it is based on processing of historical data) constitutes forward-looking information, as defined in the Securities Law, 1968. The actual results of the Bank may differ materially from those included in forward-looking information, including, among other factors, as a result of changes in capital markets in Israel and globally, macro-economic changes, changes in geopolitical conditions, regulatory changes, accounting changes, changes in taxation rules, and other changes not under the Bank's control, which may lead to the failure of estimates to materialize and/or to changes in the Bank's business plans. Forward-looking information is marked by words or phrases such as "forecast," "plan," "objective," "risk estimate," "scenario," "stress scenario," "risk assessment," "correlation," "distribution," "we believe," "expect," "predict," "estimate," "intends," "plans," "aims," "may change," "should," "can," "will," or similar expressions. Such forward-looking expressions involve risk and uncertainty, because they are based on management's estimates regarding future events, which include changes in the following parameters, among others: economic conditions, public tastes, interest rates in Israel and overseas, inflation rates, new legislation and regulation in the area of banking and the capital market, exposure to financial risks, the financial stability of borrowers, the behavior of competitors, aspects related to the Bank's image, technological developments, manpower-related matters, and other areas that affect the activity of the Bank and the environment in which it operates, the materialization of which is uncertain by nature.

This information reflects the Bank's current viewpoint with regard to future events, which is based on estimates, and is therefore subject to risks and uncertainty, as well as to the possibility that expected events or developments may not materialize at all or may only partially materialize, or even that actual developments may be the opposite of expectations.

The information presented below is based, among other things, on information known to the Bank and based, among other things, on publications by various entities, such as the Central Bureau of Statistics, the Ministry of Finance, the Bank of Israel, the Ministry of Housing, and other entities that publish data and estimates regarding the Israeli and global capital markets.

### 1.3. Condensed financial information

The activity of the Isracard Group has been classified as a "discontinued operation" since the financial statements for the second quarter of 2018. The data of the Isracard Group are therefore not presented in most of the detailed information below, including restatement of comparative periods (except where otherwise noted). For further details, see Note 1G to the Financial Statements.

Table 1-1: Condensed financial information and principal performance indicators over time[5]

| | For the year ended December 31 | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| **Main performance indicators** | | | | | |
| Return of net profit on equity attributed to shareholders of the Bank | **7.06%** | 7.50% | 7.72% | 9.61% | 9.10% |
| Return of net profit on equity attributed to shareholdersof the Bank excluding extraordinary items[1] | **9.74%** | 9.44% | *10.04% | 9.61% | 10.90% |
| Return of net profit from continued operations on equity attributed to shareholders of the Bank[6] | **6.07%** | 6.61% | 6.92% | 8.74% | 7.98% |
| Return of net profit from continued operations on equity attributed to shareholders of the Bank excluding extraordinary items[1][6] | **8.75%** | 8.55% | 9.23% | 8.74% | 9.82% |
| Return on average assets | **0.57%** | 0.59% | 0.60% | 0.73% | 0.71% |
| Ratio of income to average assets | **2.29%** | 1.99% | 2.07% | 2.13% | 2.28% |
| Efficiency ratio – cost-income ratio from continued operations | **65.05%** | **64.57% | **63.24% | 59.63% | 64.91% |
| Efficiency ratio – cost-income ratio excluding extraordinary items from continued operations[1] | **57.82%** | **59.10% | **59.22% | 59.63% | 60.48% |
| Financing margin from regular activity[2] | **2.31%** | 2.13% | 2.05% | 2.05% | 2.24% |
| Liquidity coverage ratio[3] | **120%** | 122% | 124% | 99% | - |

| | December 31 | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| Ratio of common equity Tier 1 capital to risk components[4] | **11.16%** | 11.26% | 11.01% | 9.63% | 9.29% |
| Ratio of total capital to risk components[4] | **14.39%** | 14.64% | 15.11% | 14.36% | 14.60% |
| Leverage ratio[4] | **7.51%** | 7.37% | 7.25% | 7.10% | - |

* Restated for inclusion of the effects of the reduction of corporate tax as part of profit excluding extraordinary items in 2016. In the Periodic Report for 2017 (and the subsequently published presentation for 2017), net profit and return on equity for 2016 and 2017 were presented excluding expenses in respect of the update of the provision in connection with the investigation of the Bank Group's business with American customers and the discontinuation of activity in Switzerland only. In 2016, net profit and return on equity for 2016 were presented also excluding the effects of the reduction of corporate tax (in addition to the exclusion of the update of the provisions in respect of the investigation, as noted). Within the process of preparation for filing a shelf prospectus of Hapoalim Hanpakot Ltd. (the issuance arm of the Bank, which is a company under full ownership), the Israel Securities Authority requested that the Bank present these data for 2016 in a manner that consistently applies the aforesaid excluded components.

** Reclassified. Expenses in respect of insurance for Sale Law guarantees are stated as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item.

(1) Does not include expenses in respect of the efficiency plan, the update of the provision in connection with the investigation of the Bank Group's business with American customers, and income and costs in respect of the discontinuation of activity in Switzerland.

(2) Financing profit from regular activity (see the Report of the Board of Directors and Board of Management, in the section "Material developments in income, expenses, and other comprehensive income") divided by total financial assets after allowance for credit losses, net of non-interest bearing balances in respect of credit cards.

(3) For additional information, see the section "Liquidity and refinancing risk," below. The Bank has applied the liquidity coverage ratio directive as of April 1, 2015.

(4) For additional information, see the section "Capital, capital adequacy, and leverage," below. The Bank has applied the Basel 3 directives as of January 1, 2014, and the leverage ratio directives as of April 28, 2015.

(5) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

(6) The return of net profit from continued operations, after separation from Isracard, may be influenced by processes of adjustment of capital in respect of the subtraction of risk-adjusted assets in the amount of approximately NIS 12.5 billion, as a result of the separation, and additional adjustments.

Table 1-1: Condensed financial information and principal performance indicators over time[2] (continued)

| | For the year ended December 31 | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| **Main credit quality indicators** | | | | | |
| Allowance for credit losses as a percentage of credit to the public | **1.31%** | 1.36% | 1.50% | 1.58% | 1.58% |
| Impaired debts and debts in arrears of 90 days or more as a percentage of credit to the public | **1.23%** | 1.31% | 1.83% | 2.27% | 2.80% |
| Net charge-offs as a percentage of average credit to the public | **0.20%** | 0.21% | 0.18% | 0.08% | 0.06% |
| Provision for credit losses as a percentage of average credit to the public | **0.22%** | 0.08% | 0.07% | 0.17% | 0.16% |

| | NIS millions | | | | |
|---|---|---|---|---|---|
| **Main profit and loss data** | | | | | |
| Net profit attributed to shareholders of the Bank | **2,595** | 2,660 | 2,628 | 3,082 | 2,713 |
| Net profit attributed to shareholders of the Bank excluding extraordinary items[1] | **3,579** | 3,348 | 3,417 | 3,082 | 3,264 |
| Net profit from continued operations attributed to shareholders of the Bank | **2,231** | 2,346 | 2,354 | 2,802 | 2,386 |
| Net profit from continued operations attributed to shareholders of the Bank excluding extraordinary items[1] | **3,215** | 3,034 | 3,143 | 2,802 | 2,937 |
| Net interest income | **8,906** | 8,424 | 7,958 | 7,710 | 7,621 |
| Provision (income) for credit losses | **613** | 202 | 179 | 437 | 405 |
| Net financing profit*** | **10,351** | 9,076 | 9,121 | 8,744 | 8,495 |
| Non-interest income | **4,868** | *4,153 | *4,917 | 4,996 | 4,800 |
| Of which: fees | **3,318** | *3,338 | *3,617 | 3,838 | 3,814 |
| Operating and other expenses | **8,960** | *8,121 | *8,142 | 7,577 | 8,063 |
| Of which: salaries and related expenses | **4,097** | **4,209 | **4,239 | **4,467 | **4,926 |
| Total income | **13,774** | *12,577 | *12,875 | 12,706 | 12,421 |

| | | | | | |
|---|---|---|---|---|---|
| **Net earnings per ordinary share (in NIS)** | | | | | |
| Basic net earnings per share in NIS attributed to shareholders of the Bank from continued operations | **1.68** | 1.76 | 1.77 | 2.11 | 1.80 |

* Reclassified. Expenses in respect of insurance for Sale Law guarantees are stated as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item.

** Pursuant to the directives of the Bank of Israel, certain actuarial cost components of employee benefits were reclassified from salary expenses to other expenses. For further details, see Note 1D(3) to the Financial Statements.

*** Net financing profit includes net interest income and non-interest financing income (expenses).

(1) Does not include expenses in respect of the efficiency plan, the update of the provision in connection with the investigation of the Bank Group's business with American customers, and income and costs in respect of the discontinuation of activity in Switzerland.

(2) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

Table 1-1: Condensed financial information and principal performance indicators over time[1] (continued)

| | December 31 | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | NIS millions | | | | |
| **Main balance sheet data** | | | | | |
| Total assets | **460,926** | 454,424 | 448,105 | 431,638 | 407,794 |
| Of which: Cash and deposits with banks | **84,459** | 86,093 | 80,367 | 64,964 | 54,961 |
| Securities | **56,116** | 65,416 | 71,429 | 62,865 | 58,758 |
| Net credit to the public | **282,507** | 265,853 | 259,878 | 267,480 | 254,107 |
| Net problematic credit risk | **6,944** | 6,822 | 7,358 | 9,171 | 12,648 |
| Net impaired balance sheet debts | **2,158** | 2,121 | 3,094 | 4,257 | 5,384 |
| Total liabilities | **423,270** | 418,420 | 413,880 | 398,419 | 376,183 |
| Of which: Deposits from the public | **352,260** | 347,344 | 338,494 | 321,718 | 297,221 |
| Deposits from banks | **4,528** | 3,649 | 4,077 | 4,542 | 4,322 |
| Bonds and subordinated notes | **30,024** | 29,058 | 33,560 | 34,475 | 33,671 |
| Shareholders' equity | **37,544** | 35,863 | 34,047 | 33,032 | 31,361 |
| Credit to the public not accruing interest income (NPL) | **2,178** | 2,073 | 3,480 | 4,928 | 5,845 |
| **Additional data** | | | | | |
| Share price at end of year (in NIS) | **23.7** | 25.6 | 22.9 | 20.1 | 18.4 |

| | For the year ended December 31 | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| Total dividend per share (in agorot)** | **37.17** | 64.53 | 51.44 | 42.87 | 33.83 |
| Average number of employee positions[1] | **9,723** | 10,228 | 10,556 | 11,025 | 11,560 |
| Ratio of net interest income to average assets | **1.97%** | 1.87% | 1.80% | 1.88% | 2.04% |
| Ratio of fees to average assets | **0.73%** | *0.74% | *0.82% | 1.26% | 1.37% |

* Reclassified. Expenses in respect of insurance for Sale Law guarantees are stated as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item.

** According to the date of declaration.

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

## 1.4. Condensed description of the principal risks to which the Bank is exposed

The Bank performs comprehensive examinations to assess the risks to which it is exposed and to determine the materiality of such risks. Within the ICAAP (the Internal Capital Adequacy Assessment Process), the Bank defined the following risks as material risks: credit risk, concentration risk, market risk, investment risk, operational risk (including IT risk and cyber risk), counterparty risk, interest-rate risk in the banking book, liquidity risk, reputational risk, strategic and competitive risk, regulatory risk, and compliance risk. Other risks to which the Bank is exposed are handled directly as part of the management of its business: legal risk, economic risk, and environmental risk. For additional information regarding risks, see the section "Review of risks," below, and the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2018.

### 1.5. Objectives and business strategy

In late 2018, the Board of Management and the Board of Directors of the Bank approved a three-year strategic plan (for the years 2019-2021), which will be updated each year based on changes in the global economy, changes in the business environment in Israel, regulatory processes, and changes in the competitive environment in which the Bank operates, in all areas of its activity.

In addition to these changes, this year the strategic plan was built while also taking into consideration possible future scenarios for the banking industry, as published by the Basel Committee on Banking in February 2018. In its Annual Review of the Banking System in Israel for 2017, published in May 2018, the Banking Supervision Department described the Basel scenarios. The Bank adopted the Basel scenarios as a methodology for the analysis of the future competitive environment and for the selection of the most probable reference scenario for the banking industry in Israel. Note that in view of the differences between the competitive environments of the private customer segment and the business customer segment, we estimate that different scenarios will materialize in the different segments of activity.

The global and Israeli banking systems are influenced by a matrix of factors, primarily changes in customers' habits, tightened regulation, and the growing impact of technology. These shifts have led to more intense competition, from traditional players as well as a multitude of varied new players. We estimate that the Distributed Bank scenario has a high probability of realization, gradually, over a period of years, in the retail-banking sector (private customers and small businesses). In this scenario, financial services will be distributed among banks and technological players. This scenario may involve collaborations forming between players through various activity models.

According to the estimates of the Bank, in corporate and commercial banking, the value added that large technology companies can offer business clients is relatively limited, and the threat posed by tech giants in these customer segments is therefore remote. Thus, in our view, there is a high probability that the Better Bank scenario will materialize in the corporate-banking sector. In this scenario, existing banks will undergo comprehensive modernization and digitization; they will use new technologies to improve their systems, renew customer interfaces, create added value, and offer advanced services. Some business models will change, but customer relationships and core activity will be maintained.

The Bank's three-year strategic plan takes the caution necessitated by the risks in the global economy and the Israeli market into account, and balances risk and return considerations. The goal of the strategic plan is to enable the Bank to continue to pursue a trajectory of stable growth, while continuing to solidify its leadership in the Israeli banking system; providing an advanced, excellent service experience; and maximizing value for its shareholders and all of its stakeholders, despite the array of challenges confronting it, which include challenges arising from the development of the competitive map, as illustrated by the Basel scenarios.

The Bank implements the directives of the Bank of Israel concerning compliance with capital targets; these directives were taken into consideration in the Bank's strategic planning. The strategic plan is focused on five key themes:

1. **Value-creating leadership in target customer segments and activities in Israel –** Deeper connections and activities with the Bank's customers based on innovation in services and optimization of channels of activity, enhanced added value, creation of solutions adapted to different customers' needs, and strengthening of the focus of the business on high-potential activities.
2. **Enhancement of value for customers through a combination of personal, human, and technological connections –** Adapted, accessible, intuitive banking service, integrating advanced digital services with human service and advice in complex activities and at decision points.

3. **Building tomorrow: construction of infrastructures, innovation, and focused international growth –** Strengthening infrastructures for future growth and developing advanced technological capabilities, in collaboration with the business environment, while developing the commercial banking business in the United States.
4. **Sustainable shared value with stakeholders –** Promoting business processes that generate shared value for the public and for the Bank, while increasing transparency and cultivating dialogue with all stakeholders.
5. **Ongoing operational simplification and excellence –** Optimizing the allocation of all resources, while simplifying and redesigning processes from end to end in order to enhance value for customers, and implementing a multi-year efficiency plan.

In addition to the five key strategic themes described above, the Bank operates in accordance with three themes in the area of resources and infrastructures:

- The Bank will continue to emphasize the nurturance and management of human resources and the creation of a supportive, agile organizational infrastructure.
- The Bank will work to promote excellence in financial management and in dynamic, advanced capital management.
- These activities will be conducted while applying rigorous risk management congruent with the trajectory for the operations of the Bank.

The Bank will continue to act on the basis of its fundamental values and in congruence with the principles of sustainability, as defined in its vision. In this context, as it has in recent years, the Bank will work to continue to lead the financial industry in the areas of corporate social responsibility and contribution to the community.

## Value-creating leadership in target customer segments and activities in Israel

In retail banking, competition continues to intensify, on the part of banks, institutional entities, fintech ventures, and other non-bank players. Another key factor contributing to the growing competition is the significant reforms implemented by regulators, which have emphasized the area of retail credit, most notably the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel.

The Bank is preparing for implementation of the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel, including preparations to separate from the credit-card companies owned by the Bank, work with new operators, implement the required changes in its work processes, and more.

The Bank will work to continue to improve its retail credit portfolio, while enhancing its capabilities in underwriting and collection.

In the corporate and commercial arenas, the Bank will continue to work to maintain its leading position as the first choice for large and mid-sized business clients. The Bank will also work to strengthen its capabilities in service for businesses and in supporting customers experiencing growth.

In activity with customers in the business sector, credit volumes at the Bank rose in 2018, in both the Corporate Division and the Commercial Division; the Bank will work to continue the growth in this area. In addition, the Corporate Banking Area is expanding its activity in the area of complex credit products, through a dedicated network of leading professionals, in order to provide an optimal response to the unique financing needs of the Area's clients. As part of the improvement of the value offer for mid-sized and large business clients, the Bank is also working to expand and improve the digital services available to these clients. The Bank's leadership will be solidified and strengthened while optimizing and dynamically managing capital resources and risk-adjusted assets, alongside rigorous risk management.

## Enhancement of value for customers through a combination of personal, human, and technological connections

According to the Bank's conceptualization, its relationship with its customers can be divided into two arenas: expert banking and daily banking. Daily banking mainly encompasses simple banking transactions, which most customers prefer to perform independently using the direct channels (mobile applications, the Bank's website, and self-service stations); the assumption is that the percentage of such customers will rise further in the future. By contrast, expert banking refers to more complex banking transactions. The more complex a transaction is perceived to be, the greater the percentage of customers interested in guidance from a human professional.

Within the enhancement of its expert banking capabilities, the Bank continues to implement its current strategy for upgrading service models in retail banking and offer guidance to customers in financial decisions at key decision points. A decision has also been made to adapt the physical distribution network, with a focus on customer advising and guidance.

In daily banking, the Bank has decided to invest significant effort in order to transform the digital and direct channels into customers' first choice for the consumption of non-complex services and products. This will include actions to improve the range and quality of products and channels offered, and to manage the migration to digital channels while remaining responsive to customers with low digital literacy. Within daily banking, the Bank will also work to improve the value offer in charge cards and provide advanced payments solutions, such as the application Bit.

In addition, the Bank is working to develop information and analytics to improve decision-making capabilities through the adoption of precise, individual automated processes based on broad information infrastructures.

For commercial and corporate clients, the Bank will continue to enhance its service and sales capabilities, including improvement of the credit allocation process, implementation of a new CRM system, and more.

Overall, customers will receive higher-quality service – personal, human, and technological – better suited to their needs, combining outstanding professional human service with convenient access to simple, accessible technological means.

## Building tomorrow: construction of infrastructures, innovation, and focused international growth

The Bank is preparing to take a leap forward in innovation and digital services, and build advanced, flexible technological capabilities. Over the coming years, the Bank intends to formulate work processes and develop an agile, supportive organizational culture that encourages innovation. The Bank also aspires to promote collaborations with technology firms, including in the fintech space, to create value for its customers.

Within the endeavor of strengthening its technological infrastructures, the Bank has decided to embark on a process of adapting its core systems to cope with the pace of changes in the business environment. Given the rapid shifts in business models and in technological products, a renewal of the Bank's core systems has become necessary. Modernization of the core systems will allow a more flexible and simpler banking infrastructure, which will improve the pace of implementation of new business processes and the time to market of newly developed products; a foundation for open API; and reduction of IT costs.

In international operations, the Bank will work to continue to develop and grow its activity in the commercial sector in the United States, through the expansion of existing activities and selective entry into new areas of activity and geographical regions. The Bank has decided to discontinue its activity in the area of global private banking, and is closing this activity.

## Sustainable shared value with stakeholders

The Bank is emphasizing the creation of sustainable shared value with stakeholders, with the aim of working to help people, businesses, and communities thrive and prosper. The Bank will promote business processes that create value for the public and for the Bank, increase transparency, and strengthen dialogue with all stakeholders. As part of the realization of this goal, the Bank has established the Financial Growth Center (a center for financial education for customers and the general public), and is promoting processes and actions with shared value, for the benefit of the Bank and all of its stakeholders.

## Ongoing operational simplification and excellence

Striving for simplicity and continual operational excellence will remain a key aspiration for the Bank. The Bank will work to improve its operational efficiency ratio throughout the period of the strategic plan. The push towards operational excellence will allow the Bank to make optimal use of its existing resources in order to realize new initiatives. The Bank will work to continue to streamline and improve work processes at its Head Office and administrative units, with an emphasis on simplifying and automating processes, thereby improving service for customers while strengthening operational excellence. Within this effort, the Bank is considering a transition to an agile operational model (transition to cross-position work teams built around a business objective) for its Head Office, which allows rapid response (TTM) and flexibility.

The Bank's approved work plans and the working assumptions on which they are based refer to the Bank's future activities; therefore, the above information in this section with regard to the Bank's action plans and intentions is "forward-looking information."

The strategic plan sets ambitious goals for each of the Bank's activities, yet in any planning, especially in planning several years ahead, and all the more so during a period of changes and turmoil in the global economy and in the world financial system, a considerable degree of uncertainty must be taken into consideration. Various diverse factors may prevent the assumptions on which the strategic plan is based from materializing, or may prevent them from materializing in full, and may prevent the realization or full realization of future plans. Notable such factors are the business environment in Israel and globally, as well as macro conditions. Special importance should be accorded to the condition of the global economy; to the economic, political, and security situation in Israel and in the region; and to regulatory changes.

# 2. Explanation and analysis of results and business position

## 2.1. Trends, events, developments, and material changes

### 2.1.1. Economic and financial review

**Developments in the global economy**

The global economy grew by 3.7% in 2018, according to estimates by the International Monetary Fund, similar to 2017. However, a deceleration of growth was apparent in the second half, and developments in the financial markets reflect worries over a significant slowdown in growth in the coming years. The yield curve in the United States flattened, even moving to a slight negative slope in the short section, meaning that investors believe the current round of increases in the interest rate there is about to end. Towards the end of the year, volatility in world equity markets rose, while prices fell relatively sharply. It should be noted that the actual data up to this point indicate slower growth, rather than a slide into recession. This slowdown was notable in the Eurozone and in China, while in the United States the growth rate was high, and only began to weaken at the end of the year. It is difficult to point to a specific factor that caused some degree of softness in the economy and changed market estimates. These developments may have been influenced by the trade tensions between the United States and China, which led to the mutual imposition of tariffs; by less expansionary monetary policies, particularly in the United States; and by worries over a global increase in debts. The federal debt in the United States continued to rise, due to the high deficit; in China, concerns have focused on corporate debt.

Following a decade of growth in the developed countries, unemployment rates in the United States and Europe fell to low levels, compared to the past. The unemployment rate in the United States fell to 3.9%, and the unemployment rate in Europe decreased to 7.9%. The strong condition of the labor market and the expansionary monetary policy did not raise inflation significantly; however, there is a gap between the United States and Europe. In the United States, the consumer price index, excluding energy and food, rose by 2.2% in 2018, while in the Eurozone, inflation remained lower, at 1.0%. Central banks around the world are gradually adopting less-expansionary monetary policies. This process has been faster in the United States, due to both the low unemployment rate and the higher inflation. The Federal Reserve interest rate rose over the year, reaching 2.5% in December. Additional countries, including Canada, England, the Czech Republic, Norway, and Sweden, raised interest rates over the last year. While the interest rate was not raised in the Eurozone, the central bank announced the end of its bond-purchasing plan (monetary expansion).

**Economic activity in Israel**

The Israeli economy grew by 3.3% in 2018, according to early estimates by the Central Bureau of Statistics. This growth is slightly slower than in the preceding two years, but in line with the long-term growth potential of the Israeli economy. Growth was balanced in terms of the uses of funds: private consumption, public consumption, and exports of goods and services all rose by approximately 4%, while fixed-asset investments rose at a lower rate of 2.6%. The rapid increase in uses of funds, above the growth of the economy, was reflected in a sharp 6.0% increase in imports of goods and services. Exports rose at a strong rate, as noted, but this mainly resulted from exports of services, while exports of goods showed almost no growth. In fact, exports of goods have been stagnant for about four years. Growth decelerated during the year, influenced by a decrease in the pace of expansion of private consumption, a decrease in investments in residential construction, and the continued stagnancy of exports of goods. The unemployment rate decreased to approximately 4.0% over the last year, from 4.2% in 2017. The number of employed persons increased by approximately 2.0%. The economy is essentially in a state of full employment; some economic sectors are experiencing hiring difficulties. Average wages rose at a high rate of 3.5%.

**Residential real estate**

Activity in the residential construction sector is trending down; construction began on 33,000 housing units in the first nine months of 2018, a 15% decrease year-on-year. Sales of new homes decreased by approximately 9% compared to 2017, and were down by approximately 25% from the volume of 2016. The decrease in activity volumes reflects mounting uncertainty in this sector, as entrepreneurs wait for construction permits on land acquired within the Mechir Lamishtaken (Tenant Price) project. The survey of prices of homes published by the Central Bureau of Statistics pointed to a 1.4% decrease in prices in 2018.

**Fiscal and monetary policy**

Following a period of approximately 3.5 years in which the Bank of Israel interest rate stood at 0.1%, the rate was raised by the Bank of Israel to 0.25% in December 2018. The increase in the interest rate followed a rise in the inflation environment, approaching the lower limit of the target range. Additional central banks around the world raised interest rates over the last year; this trend also supported the central bank's decision. The interest rate is still considerably lower than inflation expectations, so that the real interest rate is negative. In the decision for January 2019, the interest rate remained unchanged. The Bank of Israel noted that its monetary policy would support an increase in the inflation environment, to the middle of the target range. Inflation is currently far from the middle of the target range, and this statement lowered expectations of interest-rate increases. The short-term note (Makam) market reflects expectations of one interest-rate hike in 2019.

The estimated budget deficit for 2018 was NIS 38.9 billion, or approximately 2.9% of GDP, similar to the planning in the original budget. The expenditures of the government ministries rose by 5.2%, slightly above the original planning, while tax revenues rose by 2.0%, excluding one-off factors (the dividend tax campaign and tax from the sale of a large company). Based on the present trajectory, the Ministry of Finance expects the budget deficit to rise to 3.6% of GDP in 2019, which would exceed the deficit target for this year.

The ratio of public debt to GDP rose from 60.5% in 2017 to 61.2% in 2018. The decrease in the ratio of debt to GDP halted, due to the level of the deficit and the depreciation of the shekel against the dollar.

**Inflation and exchange rates**

The "known" consumer price index rose by 1.2% in 2018. Inflation increased slightly this year, in comparison to the preceding years, but remains close to the lower limit of the target range. The low inflation is not unique to Israel during this period, although it stands out more in Israel due to the government's policy of reducing the cost of living. Consumer price index items such as clothing and footwear and household furniture and equipment, which were influenced by the increasing competition from online retailers, tempered the increase in the overall index. Housing prices, measured in practice based on rent prices, rose by 1.9% over the last year, and have been a significant contributing factor to inflation in recent years.

The shekel depreciated by 8.1% against the US dollar and by 3.3% against the euro in 2018. The shekel appreciated by 2.7% against the effective currency basket. The Bank of Israel acquired foreign currency at a volume of USD 3.3 billion in 2018; of that amount, USD 1.5 billion was part of the acquisition plan aimed at offsetting the effect of natural-gas production in Israel on the exchange rate.

**Financial and capital markets**

Volatility increased on global capital markets over the last year, due to scaled back expansionary monetary policies, particularly in the United States, and to a lesser extent in other countries as well. The Federal Reserve interest-rate hikes and the expectation that the interest rate in Israel would begin to rise led to repricing of financial assets. Overall for the year, almost all investment avenues in the local capital market showed declines: the TA-125 index was down by 2.3%, the government-bond index was down by 1.3%, and the corporate-bond index was down by 1.8%. The decrease in prices of financial assets in Israel was influenced by global trends – the S&P 500 index in the United States fell by 7.0%, and the Stoxx Europe 600 index fell by 13.0%. A series of political events also weighed on market developments in 2018, including the trade tensions between the United States and China and the failure to reach an agreement regarding Britain's withdrawal from the European Union. Note that the declines in prices on stock markets and corporate-bond markets occurred primarily in December 2018.

Expectations of a gradual shift in monetary policy led to an increase in long-term bond yields. The yield of ten-year government bonds rose from 1.7% at the end of 2017 to 2.3% at the end of 2018. Risk spreads of corporate bonds also grew, mainly in the last quarter of the year.

## 2.1.2. Top and emerging risks

Based on the recommendations of the FSB (Financial Stability Board), a top risk is defined as a development currently occurring in the business environment of the Bank that may adversely affect the Bank's results over the course of the coming year. By contrast, with respect to an emerging risk, there is greater uncertainty regarding the timing of materialization of the risk as an occurrence with a material effect on the strategy of the Bank.

The management of risks at the Bank Group is described extensively in the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2018.

The Board of Management and Board of Directors of the Bank discussed the effect of the top and emerging risks described below on the Bank; from time to time, they examine the need to adjust business strategy to such developments:

- **Compliance risk:** Pursuant to Proper Conduct of Banking Business Directive 308, compliance risk also includes risks related to the fairness of the Bank towards its customers, conflicts of interest, the prohibition of money laundering and financing of terrorism, provision of advice to customers, protection of privacy (excluding information-technology aspects), taxation aspects relevant to products or services for customers, or directives of a similar nature.

  The materialization of this risk globally is reflected in the continuing investigations of banks around the world, and the fines imposed on them in connection with the violation of laws or regulations, such as in the areas of assisting tax evasion, the prevention of terrorism financing, money laundering, and investigations of corruption. The Bank Group's business with American customers and the issue of FIFA are under investigation by United States government agencies. The Bank estimates that the aggregate total to be paid by the Bank Group in connection with the investigation of the Bank Group's business with American customers is likely to be significantly higher than the amount of the existing provision in the financial statements. Very significant fines may adversely affect the results of the Bank. At this time, it appears that a resolution or resolutions with the United States Department of Justice regarding this matter may be in the form of a deferred prosecution agreement or a plea agreement. The type of resolution, if attained, may also affect the Bank, in that a severe resolution may cause damage to the Bank's business. For details regarding the investigations of the United States authorities, see Note 25D and 25E to the Financial Statements.

- **Macro-economic environment:** The activity of the Bank is dependent on the business environment, in Israel and globally. The condition of the global economy; significant changes in monetary policies and interest-rate curves; market volatility; changes in prices of financial assets in Israel and worldwide, and in real-estate prices; and the economic, political, and security situation in Israel and in the region have the potential to affect the activity of the Bank. The Bank's multi-annual strategic plan includes certain assumptions regarding the macro-economic environment, taking into consideration the existing risks in the global and Israeli economy, and balances risk and return considerations.
- **Regulatory environment in Israel and overseas:** International regulatory reforms have implications for the business of the Bank, in Israel and globally. In Israel, several regulatory initiatives have been formulated over the last few years, with the primary aim of increasing competition in the banking system in Israel; several additional regulatory initiatives are in the process of being generated. The regulatory initiatives and trends, and specifically the mandatory separation of the Bank from its credit-card companies and the significant changes in this area of activity, as well as the mobility of bank accounts and open API, may affect the banking system in general and the Bank in particular. At this stage, it is too early to estimate and assess the effect thereof on the Bank. For details regarding the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel, 2017, see Note 35 to the Financial Statements.
- **Information security and cyber incident risk:** Increasing cyber threats to financial institutions have led to the channeling of resources in the banking industry to cope with this risk. The Bank applies frequent controls in all channels in order to prevent harmful penetration, activation of malicious software, and information leakage. The lines of defense consist of a large number of advanced information-security systems, deployed internally in the Bank's network as well as externally as a perimeter defense.
- **Competitive-strategic risk:** New competition from technological entities, new technologies, changes in customer behavior, and new business models in the financial sphere have the power to significantly affect the banking system, in Israel and worldwide, alongside the other regulatory and competitive changes in this field. The Bank works to update its strategic plan, while taking action in the areas of innovation, technology, the structure of its operations, and more, in order to respond to all such threats.

For details regarding legal proceedings, see Note 25 to the Financial Statements.

### 2.1.3. Disclosure regarding emphasis of matters by the external auditors

Occasionally, the external auditor finds it appropriate to diverge from the uniform format by including an emphasis-of-matter paragraph, directing attention to a particular matter that has a significant effect on the financial statements and is included in a note to the financial statements.

The external auditors have emphasized the section in Note 25C concerning exposure to class-action suits filed against the Bank Group, Note 25D concerning the investigation of the Bank Group's business with American customers, and Note 25E concerning the investigation regarding FIFA.

## 2.2. Material developments in income, expenses, and other comprehensive income

Net profit of the Bank Group attributed to shareholders of the Bank totaled NIS 2,595 million in 2018, compared with profit in the amount of NIS 2,660 million in the same period of the preceding year. The decrease in profit mainly resulted from an increase in the provision in connection with the investigation of the Bank Group's business with American customers and the related legal expenses, and from an increase in the provision for credit losses. The decrease in profit was offset by an increase in financing profit, due to an increase in the volume of activity; profits from the sale of loans and from the sale of shares; and the effect of the CPI.

The rate of net return on shareholders' equity was 7.06% in 2018, compared with 7.50% in the same period of the preceding year.

Table 2-2: Condensed statement of profit and loss[1]

| | For the year ended December 31 | | Change |
|---|---|---|---|
| | **2018** | 2017 | |
| | NIS millions | | |
| Interest income | **11,672** | 10,613 | 10.0% |
| Interest expenses | **(2,766)** | (2,189) | 26.4% |
| Net interest income | **8,906** | 8,424 | 5.7% |
| Non-interest financing income | **1,445** | 652 | 121.6% |
| Net financing profit* | **10,351** | 9,076 | 14.0% |
| Provision (income) for credit losses | **613** | 202 | 203.5% |
| Net financing profit after provision for credit losses | **9,738** | 8,874 | 9.7% |
| Fees and other income*,** | **3,423** | 3,501 | (2.2%) |
| Operating and other expenses** | **8,960** | 8,121 | 10.3% |
| Profit from continued operations before taxes | **4,201** | 4,254 | (1.2%) |
| Provision for taxes on profit from continued operations | **2,009** | 1,959 | 2.6% |
| Profit from continued operations after taxes | **2,192** | 2,295 | (4.5%) |
| The Bank's share in profits of equity-basis investees, after taxes | **4** | 17 | (76.5%) |
| Net profit from continued operations | **2,196** | 2,312 | (5.0%) |
| Net profit from a discontinued operation | **364** | 314 | 15.9% |
| Net profit: | | | |
| Before attribution to non-controlling interests | **2,560** | 2,626 | (2.5%) |
| Loss attributed to non-controlling interests | **35** | 34 | 2.9% |
| Attributed to shareholders of the Bank | **2,595** | 2,660 | (2.4%) |
| Return of net profit | **7.1%** | 7.5% | (5.8%) |

* The profit and loss items above are presented in a different format than in the condensed statement of profit and loss, in order to allow better analysis of the financial results. This change is expressed in the reclassification of non-interest financing income, from the item of "non-interest income (expenses)" to the item of "net financing profit."

** Reclassified. Expenses in respect of insurance for Sale Law guarantees are stated as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item.

(1) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations, including restatement of comparative figures. For details, see Note 1G to the Financial Statements.

Net profit attributed to shareholders of the Bank totaled NIS 97 million in the fourth quarter of 2018, compared with profit in the amount of NIS 612 million in the same quarter of the preceding year. The decrease in profit mainly resulted from an increase in the provision in connection with the investigation of the Bank Group's business with American customers and the related legal expenses. Profit for the fourth quarter of 2018 excluding extraordinary items (expenses in respect of the update of the provision for the investigation of the Bank Group's business with American customers and the discontinuation of the activity in Switzerland) totaled NIS 991 million, compared with profit excluding extraordinary items in the amount of NIS 908 million in the same quarter of the preceding year.

Main factors influencing the business results of the Group, excluding extraordinary items, in the fourth quarter of 2018, compared with the preceding quarter:

1. An increase in profit from regular financing activity, mainly due to an increase in credit volumes in business banking and housing, in the amount of NIS 286 million.
2. An increase in profits from the realization of shares and bonds in the amount of NIS 182 million.
3. A decrease in salary expenses in the amount of NIS 54 million.
4. An increase in the provision for credit losses in the amount of NIS 200 million.

For details regarding material developments in income and expenses by quarter, see the addendums to the Corporate Governance section.

## 2.2.1. Developments in income and expenses

### Net financing profit

In order to analyze profit from financing activity, in addition to interest income and expenses, non-interest financing income and expenses must also be included in profit. This income includes financing income in respect of derivative instruments – exchange-rate differences and profit from the sale of securities, among other things – which serve as an integral element of the Bank's exposure management. Income from derivatives includes, among other things, the effects of the time value in the fair value of derivatives, which offset balance sheet interest exposures, as well as the effects of the rate of change in the known CPI on derivatives balances, which offset CPI exposures in respect of balance sheet balances.

Table 2-3: Composition of net financing profit*

| | For the year ended | | Change |
|---|---|---|---|
| | **December 31, 2018** | December 31, 2017 | |
| | NIS millions | | |
| Interest income | **11,672** | 10,613 | 9.98% |
| Interest expenses | **(2,766)** | (2,189) | 26.36% |
| Net interest income | **8,906** | 8,424 | 5.72% |
| Non-interest financing income | **1,445** | 652 | 121.63% |
| Total reported financing profit | **10,351** | 9,076 | 14.05% |
| Excluding effects not from regular activity: | | | |
| Income from realization and adjustments to fair value of bonds | **180** | 126 | 42.86% |
| Profit from investments in shares | **403** | 185 | 117.84% |
| Gains in respect of loans sold | **56** | 4 | |
| Adjustments to fair value of derivative instruments(1) | **64** | (40) | |
| Financing income (expenses) from tax hedging of investments overseas and hedges of currency exposures of non-monetary items(2) | **73** | 6 | |
| Total effects not from regular activity | **776** | 281 | 176.16% |
| Total income from regular financing activity(3) | **9,575** | 8,795 | 8.87% |

* Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

(1) The effect of the measurement of profit and loss in derivative instruments constituting part of the Bank's asset and liability management strategy on a fair-value basis, versus measurement on an accrual basis.

(2) This item includes the effects of hedging of currency exposures of non-monetary items and the effect of hedging the asymmetry in the tax liability in respect of exchange-rate differences in investments in subsidiaries overseas, which are not included in the income base for the calculation of the provision for tax, in contrast to exchange-rate differences in respect of financing sources. The Bank hedges against tax exposure in respect of investments overseas by establishing surplus financing sources against such investments.

(3) Financing profit excluding extraordinary effects, and excluding effects arising mainly from the timing of recording in accounting. Of which in respect of the effects of changes in the CPI: income of NIS 128 million in 2018, compared with income in the amount of NIS 38 million in 2017.

Income from regular financing activity totaled NIS 9,575 million in 2018, compared with a total of NIS 8,795 million in 2017. The increase mainly resulted from an increase in credit volumes, primarily from corporate and housing activity. In addition, the rate of increase of the known CPI between the periods and the financial spreads of foreign-currency deposits grew, due to an increase in the interest rate.

Total reported financing income amounted to NIS 10,351 million in 2018, compared with a total of NIS 9,076 million in 2017. The increase mainly resulted from an increase in profit from regular activity, as noted above. The increase also resulted from an increase in profit from investment in shares and bonds, and from an increase in profit from loans sold, mainly due to the sale of debt classified as impaired. In addition, a change occurred in the differences between the fair value of derivatives that are part of the asset and liability management of the Bank and the measurement of the same assets on an accrual basis. Income from exchange-rate differences increased, mainly due to hedging of currency exposures of non-monetary items.

**Table 2-4: Principal data regarding interest income and expenses[1]**

| | For the year ended | | | |
|---|---|---|---|---|
| | **December 31, 2018** | | December 31, 2017 | |
| | Interest income (expenses) | Rate of income (expense) | Interest income (expenses) | Rate of income (expense) |
| | NIS millions | | NIS millions | |
| Interest income | **11,672** | **2.97%** | 10,613 | 2.72% |
| Interest expenses | **(2,766)** | **1.13%** | (2,189) | 0.88% |
| Net interest income | **8,906** | **1.83%** | 8,424 | 1.84% |
| Net interest income as a percentage of the balance of interest-bearing assets | | **2.27%** | | 2.16% |

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

Interest income and expenses increased in 2018, compared with the same period of the preceding year, as a result of an increase in the dollar interest rate and a rise in the rate of increase of the known CPI between the periods. In addition, interest income increased due to an increase in credit volumes.

An analysis of the changes in interest income and expenses, in a comparison of 2018 to the same period of the preceding year, indicates that changes in the volume of average balance sheet balances caused an increase in the amount of approximately NIS 445 million, and changes in interest rates caused an increase in the amount of approximately NIS 37 million in net interest income.

**The provision for credit losses** totaled NIS 613 million in 2018, compared with a total of NIS 202 million in 2017. Income in the amount of NIS 155 million was recorded in the net individual allowance in 2018, compared with income in the amount of NIS 397 million in 2017. The decrease in income in respect of the individual allowance between the periods resulted from a decrease in recovery of debts for which an allowance was recorded and which were charged off, partly offset by a decrease in individual allowances for the period.

The net provision in respect of the collective allowance totaled NIS 768 million in 2018, compared with a provision in the amount of NIS 599 million in 2017. The increase mainly resulted from an increase in automatic charge-offs.
For further information regarding the development of balances of credit to the public, see the section "Structure and development of assets, liabilities, capital, and capital adequacy" in the Report of the Board of Directors and Board of Management.
For further information regarding the change in the allowance for credit losses, see Note 13 to the Financial Statements.

**Table 2-5: Cumulative provision for credit losses in respect of debts and in respect of off-balance sheet credit instruments**(1)**

| | For the year ended | |
|---|---|---|
| | **December 31, 2018** | December 31, 2017 |
| | NIS millions | |
| Individual provision for credit losses | **835** | 860 |
| Decrease in individual allowance for credit losses and recovery of charged off debts | **(990)** | (1,257) |
| Net individual income in respect of credit losses | **(155)** | (397) |
| Net provision in respect of the collective allowance for credit losses and net charge-offs | **768** | 599 |
| Total provision for credit losses* | **613** | 202 |
| * Of which: | | |
| Net provision (income) for credit losses in respect of commercial credit risk | **114** | (333) |
| Net provision (income) for credit losses in respect of housing credit risk | **40** | (14) |
| Net provision for credit losses in respect of other private credit risk | **457** | 549 |
| Net provision for credit losses in respect of risk of credit to banks and governments | **2** | - |
| Total provision for credit losses | **613** | 202 |
| | | |
| Provision as a percentage of total credit to the public: | | |
| Percentage of individual provision for credit losses | **0.30%** | 0.32% |
| Gross provision for credit losses as a percentage of the average recorded balance of credit to the public*** | **0.58%** | 0.55% |
| Provision for credit losses as a percentage of the average recorded balance of credit to the public | **0.22%** | 0.08% |
| Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public | **0.20%** | 0.21% |
| Net charge-offs in respect of credit to the public as a percentage of the allowance for credit losses in respect of credit to the public | **14.58%** | 15.42% |

** Including in respect of housing loans examined according to the extent of arrears.
*** The gross provision for credit losses is the total provision for credit losses, excluding the decrease in the individual allowance for credit losses and recovery of charged-off debts.
(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

**Fees and other income** totaled NIS 3,423 million in 2018, compared with NIS 3,501 million in 2017. Income from fees totaled NIS 3,318 million in 2018, compared with NIS 3,338 million in 2017. The decrease resulted from a decrease in account-management fees and in securities activity fees, due to a decrease in global private banking activity, offset by an increase in income from financing transaction fees and in income from credit cards.
Other income totaled NIS 105 million, compared with NIS 163 million in 2017. Income in the amount of NIS 28 million from the sale of private-banking customer portfolios in Switzerland was recorded in 2018, compared with the sale of private-banking portfolios in Miami in the amount of NIS 51 million in 2017.

Table 2-6: Details of fees and other income[1]

| | For the year ended | | Change |
|---|---|---|---|
| | **December 31, 2018** | December 31, 2017 | |
| | NIS millions | | |
| **Fees** | | | |
| Account management fees | **920** | 943 | (2.4%) |
| Securities activity | **741** | 761 | (2.6%) |
| Credit cards, net | **282** | 269 | 4.8% |
| Credit handling | **223** | 234 | (4.7%) |
| Financing transaction fees* | **450** | *436 | 3.2% |
| Other fees | **702** | 695 | 1.0% |
| Total operating fees | **3,318** | *3,338 | (0.6%) |
| **Total others** | **105** | 163 | (35.6%) |
| Total operating income and other income | **3,423** | *3,501 | (2.2%) |

* Reclassified. Expenses in respect of insurance for Sale Law guarantees are stated as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item.
(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

**Operating and other expenses** totaled NIS 8,960 million in 2018, compared with NIS 8,121 million in 2017, an increase of approximately 10.3%. The increase in expenses primarily resulted from an increase in the provision in connection with the investigation of the Bank Group's business with American customers and the related legal expenses.

Table 2-7: Details of operating and other expenses*

| | For the year ended | | Change |
|---|---|---|---|
| | **December 31, 2018** | December 31, 2017 | |
| | NIS millions | | |
| **Salary expenses** | | | |
| Wages | **3,740** | (1)3,821 | (2.1%) |
| Bonuses and share-based compensation | **357** | 388 | (8.0%) |
| Total wages | **4,097** | (1)4,209 | (2.7%) |
| **Maintenance and depreciation of buildings and equipment** | **1,376** | 1,350 | 1.9% |
| **Other expenses(3)** | **3,487** | (2)2,562 | 36.1% |
| Total operating and other expenses | **8,960** | 8,121 | 10.3% |

* Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

(1) Pursuant to the directives of the Bank of Israel, certain actuarial cost components of employee benefits were reclassified from salary expenses to other expenses. For further details, see Note 1D(3) to the Financial Statements.

(2) Reclassified. Expenses in respect of insurance for Sale Law guarantees are stated as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item.

(3) In 2018, includes a total of NIS 30 million in respect of the discontinuation of private-banking activity at Bank Hapoalim Switzerland (a total of NIS 87 million in 2017).

**Salary expenses** totaled NIS 4,097 million in 2018, compared with NIS 4,209 million in 2017, a decrease of 2.7%. The decrease in salary expenses resulted from continued cost savings due to efficiency processes.

**Expenses for maintenance and depreciation of buildings and equipment** totaled NIS 1,376 million in 2018, compared with NIS 1,350 million in 2017, an increase of 1.9%. The increase resulted from an increase in depreciation expenses of software and computer capitalization assets, as a result of an increase in the volume of technological development.

**Other expenses** totaled NIS 3,487 million in 2018, compared with NIS 2,562 million in 2017, an increase of 36.1%. The increase primarily resulted from the provision in connection with American customers and the related legal expenses, and from an increase in IT expenses, fees, and marketing and advertising expenses. By contrast, communications expenses decreased.

**The provision for taxes on profit from continued operations** amounted to NIS 2,009 million in 2018, compared with a total of NIS 1,959 million in 2017.

The effective tax rate for the Bank reached 47.8% in 2018, compared with a statutory tax rate of 34.19%, due to unrecognized expenses, mainly as a result of the provision in connection with the investigation of the Bank Group's business with American customers; losses for which no deferred taxes were included; and taxes in respect of previous years, mainly due to recovery of charged-off debts.

**Net profit from a discontinued operation** totaled NIS 364 million in 2018, compared with a total of NIS 314 million in 2017. The increase in profit of the Isracard Group mainly resulted from an increase in interest income, as a result of an increase in balances of credit to private individuals, and an increase in income from fees, as a result of an increase in volumes of activity.

Beginning with the financial statements for the second quarter of 2018, the Isracard Group is presented as a "discontinued operation." Pursuant to the accounting standards applicable to the Bank, at the date of classification as a discontinued operation, the Bank presented the profit attributed to the discontinued operation separately in the statement of profit and loss for all reporting periods. For details, see Note 1G and the section "Principal subsidiary and affiliated companies," below.

**Non-controlling interests' share in net results of consolidated companies** amounted to a loss, mainly from Bank Pozitif, in the amount of NIS 35 million in 2018, compared with a loss in the amount of NIS 34 million in 2017.

**Net profit attributed to shareholders of the Bank** totaled NIS 2,595 million in 2018, compared with a total of NIS 2,660 million in 2017.

**Basic net earnings per share of par value NIS 1** amounted to NIS 1.68 in 2018, compared with NIS 1.76 in 2017.

### 2.2.2. Developments in comprehensive income

Table 2-8: Comprehensive income[1]

| | For the year ended | |
|---|---|---|
| | **December 31, 2018** | December 31, 2017 |
| | NIS millions | |
| Net profit before attribution to non-controlling interests | **2,560** | 2,626 |
| Net loss attributed to non-controlling interests | **35** | 34 |
| Net profit attributed to shareholders of the Bank | **2,595** | 2,660 |
| Other comprehensive income (loss) before taxes: | | |
| Net adjustments for presentation of securities available for sale at fair value | **(920)** | 212 |
| Net adjustments from translation of financial statements*, after hedge effects | **(2)** | 4 |
| Adjustments of liabilities in respect of employee benefits | **379** | (122) |
| Net gains in respect of cash-flow hedges | **-** | 1 |
| Other comprehensive income (loss) before taxes | **(543)** | 95 |
| Effect of related tax | **135** | (39) |
| Other comprehensive income (loss) before attribution to non-controlling interests, after taxes | **(408)** | 56 |
| Net of other comprehensive loss (income) attributed to non-controlling interests | **-** | (2) |
| Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes | **(408)** | 54 |
| Comprehensive income (loss) before attribution to non-controlling interests | **2,152** | 2,682 |
| Comprehensive loss attributed to non-controlling interests | **35** | 32 |
| Comprehensive income attributed to shareholders of the Bank | **2,187** | 2,714 |

* Adjustments from the translation of financial statements of a foreign operation whose functional currency differs from the functional currency of the Bank.

(1) Includes balances attributed to a discontinued operation. For details, see Note 1G to the Financial Statements.

**Comprehensive income** totaled NIS 2,187 million in 2018, compared with a total of NIS 2,714 million in 2017. Comprehensive income was mainly influenced by a decrease in the balance of adjustments of securities available for sale, which resulted from the realization of securities in 2018, allocated to the statement of profit and loss; a decrease in prices of securities on stock and bond markets in Israel and overseas in 2018, versus price gains in 2017; and a decrease in net profit, offset by the effects of the increase in the interest rate, which led to a decrease in actuarial liabilities.

### 2.2.3. Information-technology system

Table 2-9: Information-technology system*

| | Software | Hardware[3] | Other | Total |
|---|---|---|---|---|
| | NIS millions | | | |
| Additions to assets[1] in respect of the information-technology system not charged as expenses in 2018 | | | | |
| Costs in respect of wages and related expenses | **208** | **-** | **-** | **208** |
| Outsourcing costs, including consultants' fees | **78** | **-** | **-** | **78** |
| Costs of acquisitions or usage licenses[4][5] | **72** | **95** | **-** | **167** |
| Costs of equipment, buildings, and land | **-** | **-** | **8** | **8** |
| Total | **358** | **95** | **8** | **461** |
| Balances of assets[2] in respect of the information-technology system as at December 31, 2018: | | | | |
| Total depreciated cost | **1,076** | **342** | **35** | **1,453** |
| Of which: in respect of wages and related expenses | **508** | **-** | **-** | **508** |
| Expenses in respect of the information-technology system as included in the profit and loss statement in 2018: | | | | |
| Expenses in respect of wages and related expenses | **350** | **128** | **-** | **478** |
| Expenses in respect of acquisitions or usage licenses not discounted to assets | **223** | **32** | **11** | **266** |
| Outsourcing expenses, including consultants' fees | **59** | **23** | **2** | **84** |
| Depreciation expenses | **270** | **91** | **22** | **383** |
| Other expenses | **68** | **25** | **[6]63** | **156** |
| Total expenses | **970** | **299** | **98** | **1,367** |

* Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

(1) Including prepaid expenses in respect of the information-technology system in the amount of NIS 42 million (December 31, 2017: NIS 19 million).

(2) Including prepaid expenses in respect of the information-technology system in the amount of NIS 206 million (December 31, 2017: NIS 178 million).

(3) Including communications infrastructures.

(4) Costs of acquisitions or usage licenses in respect of the information-technology system which were classified in the financial statements as prepaid expenses, rather than as fixed assets (costs of equipment, buildings, and land).

(5) Including acquisitions and usage licenses of software and hardware for all divisions of the banking corporation.

(6) Includes expenses by the information-technology system, including current expenses for the use of communications and telephones, mail, rent, taxes, electricity, etc.

Table 2-9: Information-technology system* (continued)

| | Software | Hardware[3] | Other | Total |
|---|---|---|---|---|
| | NIS millions | | | |
| Additions to assets[1] in respect of the information-technology system as at December 31, 2017: | | | | |
| Costs in respect of wages and related expenses | 185 | - | - | 185 |
| Outsourcing costs, including consultants' fees | 87 | - | - | 87 |
| Costs of acquisitions or usage licenses[4][5] | 72 | 118 | - | 190 |
| Costs of equipment, buildings, and land | - | - | 8 | 8 |
| Total | 344 | 118 | 8 | 470 |
| Balances of assets[2] in respect of the information-technology system as at December 31, 2017: | | | | |
| Total depreciated cost | 993 | 309 | 44 | 1,346 |
| Of which: in respect of wages and related expenses | 399 | - | - | 399 |
| Expenses in respect of the information-technology system as included in the profit and loss statement in 2017: | | | | |
| Expenses in respect of wages and related expenses | 344 | 106 | - | 450 |
| Expenses in respect of acquisitions or usage licenses not discounted to assets | 195 | 21 | 11 | 227 |
| Outsourcing expenses, including consultants' fees | 74 | 23 | - | 97 |
| Depreciation expenses | 270 | 76 | 17 | 363 |
| Other expenses | 70 | 23 | [6]66 | 159 |
| Total expenses | 953 | 249 | 94 | 1,296 |

* Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

(1) Including prepaid expenses in respect of the information-technology system in the amount of NIS 42 million (December 31, 2017: NIS 19 million).

(2) Including prepaid expenses in respect of the information-technology system in the amount of NIS 206 million (December 31, 2017: NIS 178 million).

(3) Including communications infrastructures.

(4) Costs of acquisitions or usage licenses in respect of the information-technology system which were classified in the financial statements as prepaid expenses, rather than as fixed assets (costs of equipment, buildings, and land).

(5) Including acquisitions and usage licenses of software and hardware for all divisions of the banking corporation.

(6) Includes expenses by the information-technology system, including current expenses for the use of communications and telephones, mail, rent, taxes, electricity, etc.

## 2.3. Structure and development of assets, liabilities, capital, and capital adequacy

The consolidated balance sheet as at December 31, 2018 totaled NIS 460.9 billion, compared with NIS 454.4 billion at the end of 2017.

Table 2-10: Developments in principal balance sheet items[1]

| | Balance as at | | Change |
|---|---|---|---|
| | **December 31, 2018** | December 31, 2017 | |
| | NIS millions | | |
| Total assets | **460,926** | 454,424 | 1.4% |
| Net credit to the public | **282,507** | 265,853 | 6.3% |
| Cash and deposits with banks | **84,459** | 86,093 | (1.9%) |
| Securities | **56,116** | 65,416 | (14.2%) |
| Assets attributed to a discontinued operation | **15,110** | 13,429 | 12.5% |
| Deposits from the public | **352,260** | 347,344 | 1.4% |
| Bonds and subordinated notes | **30,024** | 29,058 | 3.3% |
| Liabilities attributed to a discontinued operation | **14,733** | 14,434 | 2.1% |
| Shareholders' equity | **37,544** | 35,863 | 4.7% |

(1) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations, including restatement of comparative figures. For details, see Note 1G to the Financial Statements.

### 2.3.1. Structure and development of assets and liabilities

**Credit to the public**

Table 2-11: Development of net balance sheet credit to the public, by principal economic sector[1]

| | As at | | Change |
|---|---|---|---|
| | **December 31, 2018** | December 31, 2017 | |
| | NIS millions | | |
| Private individuals – housing loans | **70,042** | 64,843 | 8.0% |
| Private individuals – other | **42,269** | 44,587 | (5.2%) |
| Construction and real estate | **52,350** | 46,144 | 13.4% |
| Commerce | **27,909** | 24,956 | 11.8% |
| Industry | **17,037** | 17,024 | 0.1% |
| Financial services | **18,993** | 17,738 | 7.1% |
| Other | **53,907** | 51,560 | 4.6% |
| Total | **282,507** | 265,853 | 6.3% |

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

For further information regarding the development of credit and credit risks by economic sector, see the chapter "Credit risk" in Section 3.2.3, "Classification and analysis of credit risk by economic sector," in the "Review of risks," in the Report of the Board of Directors and Board of Management.

**Problematic debts**

Table 2-12: Problematic credit risk[1][3]

| | December 31, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Balance sheet | Off-balance sheet | Total | Balance sheet | Off-balance sheet | Total |
| | NIS millions | | | | | |
| Impaired credit risk | **2,729** | **582** | **3,311** | 2,629 | 620 | 3,249 |
| Substandard credit risk[2] | **1,451** | **220** | **1,671** | 1,432 | 200 | 1,632 |
| Credit risk under special supervision | **2,432** | **770** | **3,202** | 2,339 | 825 | 3,164 |
| Total problematic credit risk* | **6,612** | **1,572** | **8,184** | 6,400 | 1,645 | 8,045 |
| Net problematic credit risk | **5,492** | **1,452** | **6,944** | 5,327 | 1,495 | 6,822 |
| * Of which, unimpaired debts in arrears of 90 days or more[2] | **808** | **-** | **808** | 913 | - | 913 |

(1) Credit risk – impaired, substandard, or under special supervision.
(2) Including in respect of housing loans for which an allowance based on the extent of arrears exists, and in respect of housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.
(3) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

**Note:**
Balance sheet and off-balance sheet credit risk are presented before the effect of the allowance for credit losses, and before the effect of deductible collateral for the purpose of the indebtedness of borrowers and of groups of borrowers.

Total problematic debts increased by 2% in 2018.

For further information regarding the analysis of the credit portfolio and problematic credit risk, see the chapter "Credit risk" in Section 3.2.2, "Problematic debts," in the "Review of risks," in the Report of the Board of Directors and Board of Management.

### Off-balance sheet credit

Table 2-13: Developments in principal off-balance sheet items*

| | Balance as at | | Change |
|---|---|---|---|
| | **December 31, 2018** | December 31, 2017 | |
| | NIS millions | | |
| **Off-balance sheet financial instruments, excluding derivatives** | | | |
| Documentary credit | **1,397** | 1,825 | (23.5%) |
| Guarantees and other commitments** | **52,490** | 52,983 | (0.9%) |
| Unutilized credit-card credit facilities under the Bank's responsibility | **14,689** | 13,799 | 6.4% |
| Unutilized revolving overdraft and other credit facilities in on-demand accounts** | **41,403** | 37,604 | 10.1% |
| Irrevocable commitments to grant credit approved but not yet provided, and commitments to provide guarantees*** | **50,755** | 44,093 | 15.1% |
| Off-balance sheet financial instrument contract balances attributed to a discontinued operation | **24,845** | 23,104 | 7.5% |

* The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations, including restatement of comparative figures. For details, see Note 1G to the Financial Statements.

** Includes off-balance sheet credit risk in the amount of approximately NIS 22,617 million, in respect of which insurance was acquired from foreign insurers for the portfolio of Sale Law guarantees (December 31, 2017: NIS 31,040 million).

*** Includes the Bank's liabilities in respect of its share in the risk fund of the Maof Clearing House, in the amount of NIS 174 million (December 31, 2017: NIS 311 million).

**Securities**

The Bank has investments in government and corporate bonds, as well as investments in tradable and non-tradable shares, broadly diversified.

Securities totaled approximately NIS 56.1 billion on December 31, 2018, compared with approximately NIS 65.4 billion at the end of 2017, a decrease of approximately 14.2%, which mainly resulted from the net sale and redemption of tradable Israeli government bonds and United States government bonds in the portfolio available for sale, partly offset by purchases of corporate bonds in the portfolio available for sale. In addition, the balance of shares decreased, mostly due to the realization of shares of Clal Insurance in the amount of approximately NIS 330 million.

Details of the Bank Group's activity in securities are set out below.

Table 2-14: Securities balances

| | Trading book | | Available for sale | | Held to maturity | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Balance sheet value | % of total securities | Balance sheet value | % of total securities | Balance sheet value | % of total securities | Balance sheet value | % of total securities |
| | NIS millions/percent | | | | | | | |
| **December 31, 2018** | | | | | | | | |
| Israeli government bonds | **6,266** | **11.2%** | **26,373** | **47.0%** | **-** | **-** | **32,639** | **58.2%** |
| US government bonds | **64** | **0.1%** | **9,419** | **16.8%** | **-** | **-** | **9,483** | **16.9%** |
| Government bonds – other foreign countries | **5** | **0.0%** | **1,001** | **1.8%** | **-** | **-** | **1,006** | **1.8%** |
| Total government bonds | **6,335** | **11.3%** | **36,793** | **65.6%** | **-** | **-** | **43,128** | **76.9%** |
| Corporate bonds – Israel | **-** | **-** | **255** | **0.5%** | **398** | **0.7%** | **653** | **1.2%** |
| Corporate bonds – foreign countries | **2** | **0.0%** | **10,812** | **19.3%** | **-** | **-** | **10,814** | **19.3%** |
| Total corporate bonds | **2** | **0.0%** | **11,067** | **19.7%** | **398** | **0.7%** | **11,467** | **20.4%** |
| Shares[1] | **41** | **0.1%** | **1,480** | **2.6%** | **-** | **-** | **1,521** | **2.7%** |
| Total securities | **6,378** | **11.4%** | **49,340** | **87.9%** | **398** | **0.7%** | **56,116** | **100.0%** |
| **December 31, 2017** | | | | | | | | |
| Israeli government bonds | 5,069 | 7.7% | 35,528 | 54.3% | - | - | 40,597 | 62.1% |
| US government bonds | 66 | 0.1% | 11,973 | 18.3% | - | - | 12,039 | 18.4% |
| Government bonds – other foreign countries | 5 | 0.0% | 1,124 | 1.7% | - | - | 1,129 | 1.7% |
| Total government bonds | 5,140 | 7.9% | 48,625 | 74.3% | - | - | 53,765 | 82.2% |
| Corporate bonds – Israel | - | - | 475 | 0.7% | 423 | 0.6% | 898 | 1.4% |
| Corporate bonds – foreign countries | 3 | 0.0% | 8,550 | 13.1% | - | - | 8,553 | 13.1% |
| Total corporate bonds | 3 | 0.0% | 9,025 | 13.8% | 423 | 0.6% | 9,451 | 14.4% |
| Shares[1] | 67 | 0.1% | 2,133 | 3.3% | - | - | 2,200 | 3.4% |
| Total securities | 5,210 | 8.0% | 59,783 | 91.4% | 423 | 0.6% | 65,416 | 100.0% |

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

For further details regarding amounts measured at fair value, see Note 32B to the Financial Statements.

Table 2-15: Details of corporate bonds by economic sector

| | **December 31, 2018** | | December 31, 2017 | |
|---|---|---|---|---|
| | Balance sheet value | Percentage of total corporate bonds | Balance sheet value | Percentage of total corporate bonds |
| | NIS millions | | NIS millions | |
| Mining and quarrying | **544** | **4.7%** | 470 | 5.0% |
| Industry | **578** | **5.0%** | 1,026 | 10.9% |
| Electricity and water | **418** | **3.6%** | 279 | 3.0% |
| Information and communications | **447** | **3.9%** | 246 | 2.6% |
| Banks and financial institutions | **8,785** | **76.6%** | 6,821 | 72.2% |
| Others | **695** | **6.1%** | 609 | 6.3% |
| Total corporate bonds | **11,467** | **100.0%** | 9,451 | 100.0% |

For details regarding unrealized loss from adjustments to fair value of securities in the portfolio available for sale, see Note 12 to the Financial Statements.

## Deposits

Table 2-16: Developments in balances of deposits[1]

| | Balance as at | | Change |
|---|---|---|---|
| | **December 31, 2018** | December 31, 2017 | |
| | NIS millions | | |
| Deposits from the public | **352,260** | 347,344 | 1.42% |
| Deposits from banks | **4,528** | 3,649 | 24.09% |
| Deposits from the government | **208** | 320 | (35.00%) |
| Total | **356,996** | 351,313 | 1.62% |

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

The balance of deposits totaled approximately NIS 357 billion as at December 31, 2018, compared with a total of approximately NIS 351 billion at the end of 2017. The increase resulted from an increase in deposits of private individuals, partly offset by a decrease in deposits of institutional entities.

**Off-balance sheet activity in securities held by the public**

Table 2-17: Developments in balances of off-balance sheet monetary assets held by the Bank Group's customers for which the Bank Group provides custody, management, operational, and advisory services

| | Balance as at | | Change |
|---|---|---|---|
| | **December 31, 2018** | December 31, 2017 | |
| | NIS millions | | |
| Securities[1] | **828,350** | 863,842 | (4.11%) |
| Assets of provident funds receiving operational services[2] | **85,305** | 98,568 | (13.46%) |
| Mutual fund assets[3] | **76,213** | 84,627 | (9.94%) |

(1) Including securities balances of provident funds and mutual funds for which the Bank Group provides custody services.
(2) The Bank has decided to discontinue the activity of providing operational services in provident funds and study funds to the management companies for which it provides operational services. The activity is being discontinued through a gradual process conducted with all of the relevant parties. For additional details, see "Financial Management Segment" in the section "Segments of activity based on management approach" in the Corporate Governance Report.
(3) Value of assets of mutual funds receiving services related to account management at various volumes.

**Bonds and subordinated notes** totaled NIS 30.0 billion as at December 31, 2018, compared with NIS 29.1 billion at the end of 2017, an increase of approximately 3.3%.

Table 2-18: Details of bonds and subordinated notes

In 2018, Hapoalim Hanpakot (a wholly-owned subsidiary that serves as the issuance arm of the Bank) issued bonds in a total amount of approximately NIS 4.3 billion, and subordinated notes in a total amount of approximately NIS 1.8 billion. The subordinated notes include a principal loss absorption mechanism, in accordance with Proper Conduct of Banking Business Directive 202, and constitute part of the Tier 2 capital of the Bank.

The increase in the balance of bonds and subordinated notes was partly offset by repayments of bonds in a total amount of approximately NIS 3.7 billion, and repayments of subordinated notes in a total amount of approximately NIS 1.3 billion.

In February 2019, after the date of the financial statements, the Bank performed full early redemption of the subordinated notes in Series B. For further details regarding the early redemption of notes in Tier 1 capital, see Note 24M.

| | **December 31, 2018** | | December 31, 2017 | |
|---|---|---|---|---|
| | Balance sheet value | Of which: tradable | Balance sheet value | Of which: tradable |
| | NIS millions | | | |
| Subordinated notes | **15,371** | **12,108** | 14,820 | 11,538 |
| Bonds | **14,653** | **14,392** | 14,238 | 13,847 |
| Total bonds and subordinated notes | **30,024** | **26,500** | 29,058 | 25,385 |

The Bank is examining the possibility of a public offering by Hapoalim Hanpakot Ltd. (a wholly-owned subsidiary that serves as the issuance arm of the Bank) of bonds and subordinated notes with a loss-absorption mechanism, shortly after the approval of the financial statements. The offering and the scope and terms thereof have yet to be determined, and the foregoing shall not create an obligation of the Bank to perform the offering.

Table 2-19: Derivative instruments

| | **December 31, 2018** | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Positive fair value | Negative fair value | Notional value | Positive fair value | Negative fair value | Notional value |
| | NIS millions | | | | | |
| Interest contracts | **4,809** | **4,811** | **793,078** | 6,739 | 7,071 | 697,737 |
| Currency contracts | **4,285** | **3,423** | **264,123** | 4,348 | 4,088 | 231,527 |
| Share-related contracts | **1,377** | **1,380** | **51,423** | 914 | 904 | 45,470 |
| Commodity and service contracts (including credit derivatives) | **63** | **64** | **1,280** | 12 | 11 | 697 |
| Total | **10,534** | **9,678** | **1,109,904** | 12,013 | 12,074 | 975,431 |

## 2.3.2. Capital, capital adequacy, and leverage

### (1) Capital

#### Investments in the capital of the Bank and transactions in its shares

The issued and paid-up share capital of the Bank, as at December 31, 2018, is NIS 1,333,703,474 par value, composed of ordinary shares of par value NIS 1 each. This is the issued capital excluding 3,673,637 ordinary shares purchased by the Bank ("Treasury Shares").

Until November 2018, Ms. Shari Arison held the permit for control of the Bank, through Arison Holdings (1998) Ltd. ("Arison Holdings"). On November 22, 2018, Ms. Arison's control permit was replaced by a permit to hold means of control, which she received from the Bank of Israel (a "holding permit"), allowing the control of the Bank to be decentralized, and the Bank became a banking corporation without a controlling core. Pursuant to the terms of the holding permit, Ms. Arison, who holds approximately 15.7% of the shares of the Bank at the date of publication of this statement, is required to sell her holdings in the Bank in excess of 5% within several years. For additional details regarding the holding permit, the change in the structure of control of the Bank, and the consequences thereof, see the section "Other matters" in the Corporate Governance Report, below.

#### Dividends

As of the first quarter of 2017, the dividend distribution policy of the Bank is to distribute up to 40% of quarterly net operating profit. Any distribution is subject to a specific resolution of the Board of Directors of the Bank, based on its judgment at the date of the distribution, taking into account business considerations, the directives of all laws, and any limits on distribution.

In addition to restrictions under the Companies Law, dividend distribution by banking corporations is subject to regulation applicable to banking corporations in Israel, pursuant to which no dividends shall be distributed: (a) if the cumulative balance of retained earnings of the bank (net of negative differences included in accumulated other comprehensive income) according to its last published financial statements is not positive, or if the payout would lead to a negative balance; (b) when one or more of the last three calendar years ended in a loss or in a comprehensive loss; (c) when the cumulative result of the three quarters ended at the end of the interim period for which the last financial statement has been released indicates a loss or a comprehensive loss; (d) if the forecast is that in the year following the payout the bank's ratio of capital to risk-adjusted assets will fall below the required rate; (e) from capital reserves or positive differences resulting from the translation of financial statements of foreign operations; (f) if after the payout the bank's non-monetary assets would exceed its shareholders' equity; or (g) if the bank does not comply with the requirements of Section 23A of the Banking Law, which establishes a limit on the percentage of capital that a banking corporation may invest in non-financial corporations. Notwithstanding the above, in certain cases the Bank can distribute dividends even if the aforesaid circumstances apply, if it obtains prior written approval from the Banking Supervision Department for such distribution, up to the amount thus approved.

For details regarding the capital-adequacy target of the Bank, see the section "Capital adequacy," below.

Pursuant to the terms of the subordinated notes, if interest payments in respect of these notes are suspended, the Bank shall not pay dividends to its shareholders until all of the suspended interest payments are paid in full, whether such dividends are declared prior to the Bank's announcement regarding the formation of circumstances for suspension, or whether the dividends are declared after such an announcement.

Before the date of approval of the financial statements as at June 30, 2018, the Banking Supervision Department notified the Bank that in light of the substantive uncertainty with respect to the investigation of the United States authorities, and for reasons of caution and conservatism, the Banking Supervision Department was of the opinion that, at that time, dividends should not be distributed by the Bank. Accordingly, for reasons of conservatism and in coordination with the Bank of Israel, the Board of Directors of the Bank did not declare the distribution of a dividend from the profits of the second, third, and fourth quarters of 2018, with no change to the Bank's dividend distribution policy. See also Note 24 to the Financial Statements.

Table 2-20: Details of dividends paid

| Date of declaration | Date of payment | Dividend per share | Dividend paid in cash |
|---|---|---|---|
| | | Agorot | NIS millions |
| **May 23, 2018** | **June 12, 2018** | **18.825** | **251** |
| March 25, 2018 | April 11, 2018 | 18.345 | 245 |
| November 27, 2017 | December 14, 2017 | 14.08 | 188 |
| August 14, 2017 | August 31, 2017 | 24.365 | 325 |
| May 23, 2017 | June 13, 2017 | 22.980 | 307 |
| March 29, 2017 | April 18, 2017 | 3.105 | 41 |

## (2) Capital adequacy

### The Bank's approach to capital adequacy assessment

The Bank applies the capital measurement and adequacy directives based on the Basel directives, as published by the Banking Supervision Department and as integrated into Proper Conduct of Banking Business Directives 201-211 and the file of questions and answers.

The capital measurement and adequacy directives are based on three pillars:

- Pillar 1 – Includes the manner of calculation of the supervisory minimum capital requirements in respect of credit risks, operational risk, and market risk.
- Pillar 2 – Sets forth internal processes (the ICAAP – Internal Capital Adequacy Assessment Process) to be used by banks to assess the required capital in respect of risks in aggregate, including those not covered by Pillar 1 (such as credit concentration, interest-rate risk in the banking book, liquidity risks, settlement risks, and strategic risks), as well as a review process to be performed by the Banking Supervision Department.
- Pillar 3 – Market discipline; establishes the type and extent of information to be presented in reporting to the public on the risks to which banks are exposed.This pillar requires the disclosure of both quantitative and qualitative information, in order to enable the market to estimate the extent of the bank's exposure to risk factors.

### Basel 3 directives

The Basel 3 directives took effect on January 1, 2014. Implementation is gradual, in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299, "Capital Measurement and Adequacy – Supervisory Capital – Transitional Directives." In accordance with the transitional directives, the supervisory adjustments and deductions from capital, as well as non-controlling interests that do not qualify for inclusion in supervisory capital, were deducted from capital gradually, at a rate of 20% per annum, from January 1, 2014 to January 1, 2018. Capital instruments that no longer qualify as supervisory capital were recognized as of January 1, 2014, up to a ceiling of 80% of their balance in the supervisory capital as at December 31, 2013; this ceiling is being lowered by an additional 10% in each subsequent year, until January 1, 2022. Accordingly, in 2017, the rate of deductions from supervisory capital was 80%, and the ceiling for instruments qualifying as supervisory capital was 50%. In 2018, the rate of deductions from supervisory capital is 100%, and the ceiling for instruments qualifying as supervisory capital is 40%.

### Capital-adequacy target

Pursuant to the circular of the Banking Supervision Department concerning minimum capital ratios, the Bank, as a banking corporation of significant importance (a banking corporation whose total balance sheet assets on a consolidated basis constitute at least 20% of the total balance sheet assets of the banking system in Israel), is required to maintain a minimum common equity Tier 1 capital ratio of 10% and a minimum total capital ratio of 13.5%. A capital requirement at a rate representing 1% of the balance of housing loans at the dates of the financial statements was added to the minimum capital ratios.

Accordingly, the minimum common equity Tier 1 capital ratio and the minimum total capital ratio of the Bank required by the Banking Supervision Department, on a consolidated basis, based on data as at December 31, 2018, stand at 10.24% and 13.74%, respectively.

### Capital planning and capital adequacy objectives established by the Bank

Capital planning at the Bank is based on the work plan of the Bank and on regulatory directives, which are translated into risk-adjusted assets and changes in the various tiers of capital, while maintaining safety margins. Various sensitivity tests are applied within the planning of capital and capital ratios. The Bank also routinely monitors actual results as compared to planning, and the gaps between results and planning, and, as necessary, examines the actions needed in order to maintain the established capital targets. The policy of the Bank is to maintain capital adequacy at a level higher than the minimum ratio required by the Banking Supervision Department, and not lower than the level of capital adequacy required to cover the risks, as assessed in the Internal Capital Adequacy Assessment Process (ICAAP). Within the ICAAP, the Bank also examines the effect of stress scenarios on capital-adequacy ratios; accordingly, a plan is in place for a return to regulatory capital adequacy in the case of a such a stress event.

Further to the foregoing, and pursuant to a resolution of the Board of Directors of the Bank, the target common equity Tier 1 capital ratio is 10.75% as of December 31, 2017.

For additional information regarding the ICAAP and the capital-adequacy targets, see the Report on Risks as at December 31, 2018.

### Improving operational efficiency

In January 2016, the Banking Supervision Department issued a letter on the subject, "Improving the operational efficiency of the banking system in Israel" (the "Efficiency Directive"). Pursuant to the Efficiency Directive, the boards of directors of banking corporations shall formulate a multi-year plan to improve efficiency. Banking corporations that meet the conditions established in the directive will be granted a relief allowing them to spread the effects of the plan over a period of up to five years in a straight line, for the purposes of the calculation of capital-adequacy ratios and of the leverage ratio. In October 2016, the Board of Directors of the Bank approved an efficiency plan at an estimated cost in the amount of NIS 762 million, net of tax effect, which was allocated to capital. The effect of the costs of the efficiency plan on the ratio of common equity Tier 1 capital to risk components, estimated at approximately 0.16% as at December 31, 2018, are being allocated in equal parts over five years, beginning in 2017.

Further to the Efficiency Directive, in June 2017, the Banking Supervision Department issued a letter entitled, "Improving the operational efficiency of the banking system in Israel – efficiency in the area of real estate," which encourages banking corporations to also examine, in addition to improved efficiency in personnel expenses, the possibility of reducing real-estate and maintenance costs of headquarters and management units, including through a reexamination of the geographical location of such units (hereinafter: "Real-Estate Efficiency").

In order to encourage the implementation of a plan for Real-Estate Efficiency, the Banking Supervision Department will approve reliefs for the banks in the area of capital adequacy.

The Banking Supervision Department has extended the period for implementation of the efficiency plan until December 31, 2019.

### Capital requirements in respect of debts secured by residential properties

On March 15, 2018, the Banking Supervision Department issued an update of Proper Conduct of Banking Business Directive 203 concerning debts secured by residential properties, pursuant to which loans fully secured by mortgages on residential properties at a financing rate higher than 60% would be weighted at a rate of 60%. The directive took effect on the date of its publication, and applies to loans secured by residential properties granted as of March 15, 2018. The effect of the foregoing on the common equity Tier 1 capital ratio, as at December 31, 2018, is an increase of approximately 0.02%.

### Issuance of subordinated notes with a loss-absorption mechanism

The Bank issued two series of subordinated notes, in the amount of approximately NIS 1.8 billion, which constitute part of the Tier 2 capital of the Bank, in April and June 2018. For details regarding issues of bonds and subordinated notes by Hapoalim Hanpakot, see the section "Bonds and subordinated notes," above.

### Early redemption of capital notes in Tier 1 capital

The Bank carried out full early redemption of the subordinated notes in Series B (non-tradable), the balance of which as at December 31, 2018, totaled NIS 582 million, after the date of the financial statements, in February 2019.

### Buybacks by banking corporations

In June 2018, the Bank completed the execution of a share buyback plan, within which 1 million ordinary shares of the Bank were acquired for the implementation of the equity compensation plans adopted by the Bank. The acquisition plan was executed according to the rules in the guidance provided by the Israel Securities Authority regarding "safe harbor" protection in buybacks, following the approval of the plan by the Board of Directors of the Bank, and in accordance with the approval granted to the Bank by the Banking Supervision Department. For further details, see the Immediate Report of the Bank dated May 24, 2018.

In February 2019, the Banking Supervision Department issued a circular updating Proper Conduct of Banking Business Directive 332, "Buybacks by Banking Corporations," according to which banks will be able to perform buybacks of securities that they issue, subject to the fulfillment of certain conditions. Until now, the existing directive prohibited banks from performing buybacks, other than in exceptional cases, whereas the Companies Law permits buybacks, subject to fulfillment of conditions for distribution.

The circular establishes conditions under which banking corporations can perform buybacks of securities that they issue, including the following, among other matters:

- The approval of the Banking Supervision Department for the buyback, based on a buyback plan presented by the bank, is required.
- The volume of the buyback in each plan shall not exceed 3% of the issued and paid-up share capital of the banking corporation.
- The banking corporation shall act in accordance with the safe-harbor protection mechanism published by the Israel Securities Authority, to ensure that it has legal protection against allegations of use of insider information.
- The buyback offer shall not be directed to a particular group of shareholders (except in the case of a shareholder who is a qualifying customer, as defined in the directive).
- The buyback plan shall be approved by the board of directors of the bank.

### Guarantees pursuant to the Sale Law

On November 13, 2018, the Banking Supervision Department issued a circular updating the rate of the credit conversion factor for guarantees securing the investments of buyers of residences granted in accordance with the Sale Law. Pursuant to the circular, in guarantees as noted above, where the residence has not yet been transferred to the homeowner, the credit conversion factor is reduced from 50% to 30%. The effect of the circular, as at December 31, 2018, on the common equity Tier 1 capital ratio is an increase of approximately 0.12%, and the effect on the total capital ratio is an increase of approximately 0.15%.

### The subsidiary of the Bank in Turkey

In January 2019, a letter was received from the Bank of Israel concerning the subsidiary of the Bank in Turkey, Bank Pozitif. In the letter, the Bank of Israel stated that the activity of the Bank in Turkey exposes it to significant risks, and therefore, until the realization of the full holdings of the Bank in Bank Pozitif, the Bank is required to increase the risk weighting rates of risk-adjusted assets in respect of this activity, in the calculation of the consolidated capital ratio only, as follows:

- Beginning January 1, 2020, risk-adjusted assets in respect of the activity of Bank Pozitif will be weighted at a rate of at least 300%.
- Beginning January 1, 2021, the risk-adjusted assets will be weighted at a rate of at least 600%.

The Bank is examining possibilities for the sale of its full holdings, and in accordance with its strategic plan, has decided to gradually reduce the credit portfolio.

The effect of this instruction on the common equity Tier 1 capital ratio, based on data as at December 31, 2018, is a decrease of approximately 0.05%, under the assumption of weighting of the risk-adjusted assets at 300%, and a decrease of approximately 0.13%, under the assumption of weighting of the risk-adjusted assets at 600%.

Table 2-21: Calculation of the capital-adequacy ratio

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| | NIS millions | |
| **1. Capital for the calculation of the capital ratio after supervisory adjustments and deductions** | | |
| Common equity Tier 1 capital[1] | **38,004** | 36,582 |
| Additional Tier 1 capital | **977** | 1,221 |
| Total Tier 1 capital[1] | **38,981** | 37,803 |
| Tier 2 capital | **10,042** | 9,728 |
| Total overall capital[1] | **49,023** | 47,531 |
| **2. Weighted balances of risk-adjusted assets** | | |
| Credit risk[2] | **312,900** | 295,986 |
| Market risks | **3,429** | 5,114 |
| Operational risk | **24,268** | 23,672 |
| Total weighted balances of risk-adjusted assets[2] | **340,597** | 324,772 |
| | % | |
| **3. Ratio of capital to risk components** | | |
| Ratio of common equity Tier 1 capital to risk components | **11.16%** | 11.26% |
| Ratio of Tier 1 capital to risk components | **11.44%** | 11.64% |
| Ratio of total capital to risk components | **14.39%** | 14.64% |
| Minimum common equity Tier 1 capital ratio required by the Banking Supervision Department[3][4] | **10.24%** | 10.23% |
| Minimum total capital ratio required by the Banking Supervision Department[3][4] | **13.74%** | 13.73% |

(1) The data are presented in accordance with Proper Conduct of Banking Business Directive 202, "Capital Measurement and Adequacy – Supervisory Capital," and in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299. The data also include adjustments in respect of the efficiency plan, established based on the letter of the Banking Supervision Department of January 12, 2016, "Improvement of the operational efficiency of the banking system in Israel" (hereinafter: Efficiency Plan Adjustments), allocated in equal parts over five years, beginning in 2017. For additional details regarding the effect of the transitional directives and the Efficiency Plan Adjustments, see Note 24 to the Financial Statements.

(2) A total of NIS 640 million as at December 31, 2018, and NIS 853 million as at December 31, 2017, was deducted from the total weighted balances of risk-adjusted assets, due to Efficiency Plan Adjustments, which, in accordance with the approval of the Banking Supervision Department, are allocated gradually over five years, beginning in 2017.

(3) Upon completion of the separation from the Isracard Group, the risk-adjusted assets of the Bank are expected to decrease by approximately NIS 12.5 billion, in respect of exposures not under the responsibility of the Bank. This process is also expected to have effects on supervisory capital, which depend on the manner of separation.

(4) The minimum required common equity Tier 1 capital ratio and the minimum required total capital ratio are 10% and 13.5%, respectively. A capital requirement at a rate representing 1% of the balance of housing loans at the dates of the financial statements was added to these ratios.

Table 2-22: Composition of capital for the purpose of calculating the ratio of capital to risk components

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| | NIS millions | |
| **Tier 1 capital** | | |
| Paid-up common share capital and premium | **8,135** | 8,124 |
| Retained earnings | **30,565** | 28,465 |
| Non-controlling interests in equity of consolidated subsidiaries | **40** | 70 |
| Unrealized gains (losses) from adjustments of securities available for sale to fair value | **(163)** | 510 |
| Other capital instruments | **(536)** | (531) |
| Amounts deducted from Tier 1 capital | **(37)** | (56) |
| Total common equity Tier 1 capital | **38,004** | 36,582 |
| Innovative hybrid instruments | **977** | 1,221 |
| Total Tier 1 capital | **38,981** | 37,803 |
| | | |
| **Tier 2 capital** | | |
| Hybrid capital instruments and subordinated notes | **57** | 148 |
| Collective allowances for credit losses before the effect of related tax | **3,911** | 3,700 |
| Tier 2 capital instruments issued by subsidiaries of the banking corporation to third-party investors | **6,074** | 5,880 |
| Total Tier 2 capital | **10,042** | 9,728 |
| Total qualifying capital | **49,023** | 47,531 |

For further details, see Note 24 to the Financial Statements.

Table 2-23: Risk components and regulatory capital requirements in respect of credit risk, market risk, and operational risk

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Risk-adjusted assets | Capital requirements[1] | Risk-adjusted assets | Capital requirements[1] |
| | NIS millions | | | |
| **Credit risk** | | | | |
| Sovereign debts | **1,474** | **203** | 1,440 | 198 |
| Debts of public-sector entities | **2,923** | **402** | 3,171 | 435 |
| Debts of banking corporations | **5,986** | **822** | 6,505 | 893 |
| Debts of corporations | **122,423** | **16,820** | 112,952 | 15,508 |
| Debts secured by commercial real estate | **55,817** | **7,669** | 49,263 | 6,764 |
| Retail exposures to individuals | **49,009** | **6,734** | 49,767 | 6,833 |
| Loans to small businesses | **7,360** | **1,011** | 8,107 | 1,113 |
| Housing loans | **45,304** | **6,225** | 41,536 | 5,703 |
| Securitization | **143** | **20** | 87 | 12 |
| Other assets | **19,134** | **2,629** | 19,466 | 2,673 |
| CVA risk | **3,327** | **457** | 3,692 | 507 |
| Total in respect of credit risk | **312,900** | **42,992** | 295,986 | 40,639 |
| Market risks | **3,429** | **471** | 5,114 | 702 |
| Operational risk | **24,268** | **3,334** | 23,672 | 3,250 |
| Total risk-adjusted assets in respect of the various risks | **340,597** | **46,797** | 324,772 | 44,591 |
| Common equity Tier 1 capital | **38,004** | | 36,582 | |
| Tier 1 capital | **38,981** | | 37,803 | |
| Total capital | **49,023** | | 47,531 | |

(1) The capital requirements were calculated in accordance with the minimum total capital ratio required by the Banking Supervision Department, at 13.74% as at December 31, 2018, and 13.73% as at December 31, 2017. The following approaches are used at the Bank to calculate supervisory capital, with respect to the main risk categories: standardized approach (used for credit risks, market risks, operational risk, and securitization risk); present exposure approach (for counterparty credit risk); and calculation based on risk weights established in the Proper Conduct of Banking Business Directives (used in the calculation of other assets).

### (3) Leverage ratio

The Bank applies Proper Conduct of Banking Business Directive 218, "Leverage Ratio" (hereinafter: the "Directive"). The Directive establishes a simple, transparent, non-risk-based leverage ratio, which serves as a complementary measurement to risk-based capital requirements, and which is designed to limit the accumulation of leverage at banking corporations.

The leverage ratio is expressed as a percentage, and is defined as the ratio of the capital measurement to the exposure measurement. Capital, for the purpose of measurement of the leverage ratio, is Tier 1 capital, as defined in Proper Conduct of Banking Business Directive 202, taking into consideration the transitional arrangements that have been established. The total exposure measurement is the total of balance sheet exposures, exposures to derivatives and to securities financing transactions, and off-balance sheet items.

Table 2-24: Leverage ratio

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| | NIS millions | |
| **Consolidated data** | | |
| Tier 1 capital* | **38,981** | 37,803 |
| Total exposures* | **518,980** | 513,037 |
| | % | |
| Leverage ratio | **7.51%** | 7.37% |
| Minimum leverage ratio required by the Banking Supervision Department | **6.00%** | 6.00% |

* These data also include Efficiency Plan Adjustments, established based on the letter of the Banking Supervision Department of January 12, 2016, "Improvement of the operational efficiency of the banking system in Israel." The effect of the costs of the efficiency plan on the leverage ratio as at December 31, 2018, estimated at approximately 0.09%, is allocated in equal parts over five years, beginning in 2017.

### 2.4. Description of the Bank Group's business by supervisory activity segments

Reporting on segments of activity is in accordance with the format and classifications established in the Public Reporting Directives of the Banking Supervision Department. This reporting is fundamentally different from the activity segments used at the Bank, according to the approach of its management, which are described in Section 2.5 and in Note 28A to the Financial Statements. Supervisory activity segments are reported in the uniform format established by the Banking Supervision Department for the entire banking system. The segments are based on customer characteristics, such as asset portfolio volume with respect to private customers, or annual revenue of a business with respect to business customers.

For the definitions of the supervisory segments and for details regarding the main points of the guidelines, estimates, and reporting principles, see Note 28 to the Financial Statements.

As noted in Note 1G to the Financial Statements, the activity of the Isracard Group is classified as a "discontinued operation," beginning with the financial statements for the second quarter of 2018. Accordingly, the reports have been restated such that balance sheet balances of assets and liabilities and results attributed to the discontinued operation are presented separately from the continued operations, under the "Other" segment. For further details, see Note 1G to the Financial Statements.

Table 2-25: Results of operations and principal data of the supervisory activity segments

| | For the year ended December 31, 2018 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Activity in Israel | | | | | | | | | Activity overseas | Total |
| | Households | Private banking | Small businesses and microbusinesses | Mid-sized businesses | Large businesses | Institutional entities | Financial management | Other | Total activity in Israel | Total activity overseas | |
| | NIS millions | | | | | | | | | | |
| Net financing profit | **3,136** | **161** | **2,315** | **718** | **1,036** | **133** | **2,245** | **-** | **9,744** | **607** | **10,351** |
| Fees and other income | **1,330** | **161** | **820** | **272** | **330** | **130** | **124** | **135** | **3,302** | **121** | **3,423** |
| Total income | **4,466** | **322** | **3,135** | **990** | **1,366** | **263** | **2,369** | **135** | **13,046** | **728** | **13,774** |
| Provision (income) for credit losses | **498** | **-** | **379** | **(48)** | **(305)** | **(14)** | **2** | **-** | **512** | **101** | **613** |
| Operating and other expenses | **3,485** | **182** | **1,685** | **313** | **307** | **159** | **488** | **591** | **7,210** | **1,750** | **8,960** |
| Profit (loss) from continued operations before taxes | **483** | **140** | **1,071** | **725** | **1,364** | **118** | **1,879** | **(456)** | **5,324** | **(1,123)** | **4,201** |
| Provision for taxes (tax benefit) on profit (loss) from continued operations | **176** | **50** | **389** | **266** | **497** | **43** | **608** | **(65)** | **1,964** | **45** | **2,009** |
| Net profit (loss) from continued operations | **307** | **90** | **682** | **459** | **867** | **75** | **1,275** | **(391)** | **3,364** | **(1,168)** | **2,196** |
| Net profit from a discontinued operation | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **364** | **364** | **-** | **364** |
| Net profit (loss) attributed to shareholders of the Bank | **307** | **90** | **682** | **459** | **867** | **75** | **1,290** | **(27)** | **3,743** | **(1,148)** | **2,595** |
| Balance of gross credit to the public at the end of the reported period | **112,634** | **921** | **64,672** | **29,882** | **59,059** | **1,568** | **-** | **(1)14,605** | **283,341** | **17,529** | **300,870** |
| Balance of deposits from the public at the end of the reported period | **134,655** | **34,277** | **60,823** | **20,993** | **38,990** | **43,402** | **-** | **(1)82** | **333,222** | **19,120** | **352,342** |

(1) The data include balances attributed to a discontinued operation. For details, see Note 1G to the Financial Statements.

Table 2-25: Results of operations and principal data of the supervisory activity segments (continued)

| | For the year ended December 31, 2017* | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Activity in Israel | | | | | | | | | Activity overseas | Total |
| | Households | Private banking | Small businesses and microbusinesses | Mid-sized businesses | Large businesses | Institutional entities | Financial management | Other | Total activity in Israel | Total activity overseas | |
| | NIS millions | | | | | | | | | | |
| Net financing profit | 2,877 | 125 | 2,210 | 666 | 1,025 | 97 | 1,461 | 3 | 8,464 | 612 | 9,076 |
| Fees and other income | 1,327 | 152 | 809 | 265 | 343 | 129 | 114 | 149 | 3,288 | 213 | 3,501 |
| Total income | 4,204 | 277 | 3,019 | 931 | 1,368 | 226 | 1,575 | 152 | 11,752 | 825 | 12,577 |
| Provision (income) for credit losses | 534 | - | 497 | (255) | (613) | 2 | - | - | 165 | 37 | 202 |
| Operating and other expenses | 3,418 | 175 | 1,654 | 307 | 295 | 158 | 500 | 492 | 6,999 | 1,122 | 8,121 |
| Profit (loss) from continued operations before taxes | 252 | 102 | 868 | 879 | 1,686 | 66 | 1,075 | (340) | 4,588 | (334) | 4,254 |
| Provision for taxes (tax benefit) on profit (loss) from continued operations | 103 | 38 | 333 | 338 | 651 | 26 | 396 | 38 | 1,923 | 36 | 1,959 |
| Net profit (loss) from continued operations | 149 | 64 | 535 | 541 | 1,035 | 40 | 696 | (378) | 2,682 | (370) | 2,312 |
| Net profit from a discontinued operation | - | - | - | - | - | - | - | 314 | 314 | - | 314 |
| Net profit (loss) attributed to shareholders of the Bank | 149 | 64 | 535 | 541 | 1,035 | 40 | 711 | (64) | 3,011 | (351) | 2,660 |
| Balance of gross credit to the public at the end of the reported period | 109,604 | 866 | 60,105 | 28,146 | 53,210 | 2,417 | - | (1)13,002 | 267,350 | 15,157 | 282,507 |
| Balance of deposits from the public at the end of the reported period | 123,759 | 31,788 | 57,412 | 20,700 | 36,654 | 56,173 | - | (1)7 | 326,493 | 20,858 | 347,351 |

* Reclassified. For additional information, see the explanation in Note 28 to the Financial Statements.
(1) The data include balances attributed to a discontinued operation. For details, see Note 1G to the Financial Statements.

## Principal changes in net profit and balance sheet balances

### Household Segment

Net profit attributed to shareholders of the Bank in the Household Segment totaled NIS 307 million in 2018, compared with net profit in the amount of NIS 149 million in the preceding year. The increase mainly resulted from an increase in net financing profit.

Net financing profit totaled NIS 3,136 million in 2018, compared with NIS 2,877 million in the preceding year. The increase mainly resulted from an increase in housing credit balances, along with an increase in financial spreads on housing credit.

The provision for credit losses totaled NIS 498 million in 2018, compared with NIS 534 million in the preceding year. The decrease resulted from a decrease in the provision recorded on an individual basis, due to factors including a one-off expense recorded in the preceding year in respect of troubled debt restructuring of less than NIS 1 million. In addition, recovery of charged-off debts increased. The decrease in expenses was partly offset by an increase in the collective allowance, mainly due to an increase in automatic charge-offs.

Operating and other expenses totaled NIS 3,485 million in 2018, compared with NIS 3,418 million in the preceding year. The increase resulted from an increase in IT expenses, fees, and marketing and advertising expenses, along with an increase in depreciation expenses of software and computer capitalization assets.

Credit to the public totaled approximately NIS 113 billion as at December 31, 2018 (of which: housing credit in the amount of approximately NIS 70 billion, credit cards in the amount of approximately NIS 5 billion, and consumer credit in the amount of approximately NIS 37 billion), compared with approximately NIS 110 billion as at December 31, 2017 (of which: housing credit in the amount of approximately NIS 65 billion, credit cards in the amount of approximately NIS 6 billion, and consumer credit in the amount of approximately NIS 39 billion).

Deposits from the public totaled approximately NIS 134.7 billion as at December 31, 2018, compared with approximately NIS 123.8 billion as at December 31, 2017. The increase mainly resulted from a change in customer preferences regarding the management of their passiva portfolios, due to volatility in the capital markets in the last quarter of the year.

### Private Banking Segment

Net profit attributed to shareholders of the Bank in the Private Banking Segment totaled NIS 90 million in 2018, compared with net profit in the amount of NIS 64 million in the preceding year. The increase resulted from an increase in net financing profit.

Net financing profit totaled NIS 161 million in 2018, compared with NIS 125 million in the preceding year. The increase mainly resulted from an increase in financial spreads on deposits in foreign currency.

Fees and other income totaled NIS 161 million in 2018, compared with NIS 152 million in the preceding year. The increase mainly resulted from an increase in financial product distribution fees and in securities activity fees.

Credit to the public totaled approximately NIS 0.9 billion as at December 31, 2018, similar to the preceding year.

Deposits from the public totaled approximately NIS 34.3 billion as at December 31, 2018, compared with approximately NIS 31.8 billion as at December 31, 2017.

**Small Business and Microbusiness Segment**

Net profit attributed to shareholders of the Bank in the Small Business and Microbusiness Segment totaled NIS 682 million in 2018, compared with NIS 535 million in the preceding year. The increase primarily resulted from an increase in net financing profit and a decrease in the provision for credit losses, along with an increase in income from fees.

Net financing profit totaled NIS 2,315 million in 2018, compared with NIS 2,210 million in the preceding year. The increase mainly resulted from an increase in average balances of credit and deposits, and an increase in financial spreads on foreign-currency deposits.

Fees and other income totaled NIS 820 million in 2018, compared with NIS 809 million in the preceding year. The increase mainly resulted from an increase in securities fees and conversion differences.

The provision for credit losses totaled NIS 379 million in 2018, compared with NIS 497 million in the preceding year. The decrease resulted from an increase in recovery of charged-off debts and from a decrease in the provision recorded on an individual basis.

Credit to the public totaled approximately NIS 64.7 billion as at December 31, 2018, compared with approximately NIS 60.1 billion as at December 31, 2017.

Deposits from the public totaled approximately NIS 60.8 billion as at December 31, 2018, compared with approximately NIS 57.4 billion as at December 31, 2017.

**Mid-sized Business Segment**

Net profit attributed to shareholders of the Bank in the Mid-sized Business Segment totaled NIS 459 million in 2018, compared with NIS 541 million in the preceding year. The decrease mainly resulted from a decrease in income in respect of credit losses, partly offset by an increase in net financing profit.

Net financing profit totaled NIS 718 million in 2018, compared with NIS 666 million in the preceding year. The increase resulted from an increase in credit balances, along with an increase in financial spreads on deposits in foreign currency.

Income in respect of credit losses totaled NIS 48 million in 2018, compared with income in the amount of NIS 255 million in the preceding year. The change mainly resulted from a decrease in income from the recovery of charged-off debts. In addition, the provision recorded on a collective basis increased, in respect of both substandard debts and sound credit.

Credit to the public totaled approximately NIS 29.9 billion as at December 31, 2018, compared with approximately NIS 28.1 billion as at December 31, 2017.

Deposits from the public totaled approximately NIS 21.0 billion as at December 31, 2018, compared with approximately NIS 20.7 billion as at December 31, 2017.

**Large Business Segment**

Net profit attributed to shareholders of the Bank in the Large Business Segment totaled NIS 867 million in 2018, compared with NIS 1,035 million in the preceding year. The decrease mainly resulted from a decrease in income in respect of credit losses.

Net financing profit totaled NIS 1,036 million in 2018, compared with NIS 1,025 million in the preceding year. The increase resulted from an increase in credit volumes.

Fees and other income totaled NIS 330 million in 2018, compared with NIS 343 million in the preceding year. The decrease mainly resulted from a decrease in fees from financing transactions and in credit-handling fees.

Income in respect of credit losses totaled NIS 305 million in 2018, compared with income in the amount of NIS 613 million in the preceding year. The change mainly resulted from a decrease in income from the recovery of charged-off debts.

Credit to the public totaled approximately NIS 59.1 billion as at December 31, 2018, compared with approximately NIS 53.2 billion as at December 31, 2017.

Deposits from the public totaled approximately NIS 39.0 billion as at December 31, 2018, compared with approximately NIS 36.7 billion as at December 31, 2017.

**Institutional Entity Segment**

Net profit attributed to shareholders of the Bank in the Institutional Entity Segment totaled NIS 75 million in 2018, compared with NIS 40 million in the preceding year. The increase mainly resulted from an increase in net financing profit.

Net financing profit totaled NIS 133 million in 2018, compared with NIS 97 million in the preceding year. The increase mainly resulted from an increase in profits from financial instruments, along with an increase in net interest income, due to an increase in financial spreads on deposits.

Income in respect of credit losses totaled NIS 14 million in 2018, compared with a provision in the amount of NIS 2 million in the preceding year. The change mainly resulted from a decrease in the collective allowance, due to a decrease in credit balances.

Credit to the public totaled approximately NIS 1.6 billion as at December 31, 2018, compared with approximately NIS 2.4 billion as at December 31, 2017.

Deposits from the public totaled approximately NIS 43.4 billion as at December 31, 2018, compared with approximately NIS 56.2 billion as at December 31, 2017. The decrease resulted from a decrease in deposits of large institutional investors.

**Financial Management Segment**

Net profit attributed to shareholders of the Bank in the Financial Management Segment totaled NIS 1,290 million in 2018, compared with NIS 711 million in the preceding year. The increase mainly resulted from an increase in net financing profit.

Net financing profit totaled NIS 2,245 million in 2018, compared with NIS 1,461 million in the preceding year. The increase resulted from an increase in profit from investment in shares and bonds, and from an increase in profit from loans sold, mainly due to the sale of debt classified as impaired. In addition, a change occurred in the differences between the fair value of derivatives that are part of the asset and liability management of the Bank and the measurement of the same assets on an accrual basis. Income from exchange-rate differences increased, mainly due to hedging of currency exposures of non-monetary items. In addition, the rate of increase in the known CPI rose between the periods.

Fees and other income totaled NIS 124 million in 2018, compared with NIS 114 million in the preceding year. The increase mainly resulted from an increase in syndication fees.

**Other Segment (activity in Israel)**

The loss attributed to shareholders of the Bank in the Other Segment totaled NIS 27 million in 2018, compared with a loss in the amount of NIS 64 million in the preceding year.

The loss from continued operations attributed to shareholders of the Bank in this segment totaled NIS 391 million in 2018, compared with a loss in the amount of NIS 378 million in the preceding year. The increase in loss mainly resulted from an increase in the provision in connection with the investigation of the Bank Group's business with American customers and from an increase in the related legal expenses. The increase in loss was partly offset by a tax shield in the amount of NIS 97 million recorded in respect of the legal expenses related to the investigation.

In addition, the Other Segment includes net profit attributed to a discontinued operation, in the amount of NIS 364 million in 2018, compared with NIS 314 million in the preceding year. The increase in profit of the Isracard Group mainly resulted from an increase in interest income, as a result of an increase in balances of credit to private individuals, and an increase in income from fees, as a result of an increase in volumes of activity.

The balance sheet balances of credit-card activity included in this segment include credit to the public, which constitutes part of the discontinued operation, in the amount of approximately NIS 14.6 billion as at December 31, 2018, compared with NIS 13.0 billion as at December 31, 2017. For further details, see Note 1G to the Financial Statements.

**International Activity Segment**

The loss attributed to shareholders of the Bank in the International Banking Segment totaled NIS 1,148 million in 2018, compared with a loss in the amount of NIS 351 million in the preceding year. The increase in loss mainly resulted from an increase in the provision in connection with the investigation of the Bank Group's business with American customers at Bank Hapoalim Switzerland and in the related legal expenses, and from costs arising from the decision to discontinue the activity of Hapoalim Switzerland. The increase in loss was partly offset by profits of the business activity in the United States.

The principal changes in the results of international activity are set out below:

- Net profit of the New York branch totaled approximately NIS 109 million in 2018, compared with net profit in the amount of NIS 98 million in the preceding year. The increase mainly resulted from middle-market activity, due to an increase in net interest income, as a result of an increase in credit balances and in financial spreads, partly offset by an increase in the provision for credit losses.
- The loss of Bank Hapoalim Switzerland totaled approximately NIS 1,209 million in 2018, compared with a loss in the amount of approximately NIS 373 million in the preceding year. The increase in loss mainly resulted from an increase in the provision in connection with the investigation of the Bank Group's business with American customers at Bank Hapoalim Switzerland and in the related legal expenses, and from costs arising from the decision to discontinue the activity of Hapoalim Switzerland during the second half of 2017. The increase in loss was partly offset by income from the sale of part of the private banking customer asset portfolio.
- The loss attributed to shareholders of the Bank at the Bank Pozitif Group totaled approximately NIS 43 million in 2018, similar to the preceding year. The loss in 2018 mainly resulted from an increase in the allowance for credit losses. By contrast, the loss in 2017 mainly resulted from an increase in provisions for legal claims.

Total credit to the public in international activity amounted to approximately NIS 17.5 billion as at December 31, 2018, compared with approximately NIS 15.2 billion as at December 31, 2017.

- Credit to the public at the New York branch totaled approximately NIS 14.6 billion as at December 31, 2018, compared with approximately NIS 12.1 billion as at December 31, 2017. Credit in middle-market activity totaled approximately NIS 11.7 billion, of which a total of approximately NIS 5.0 billion in respect of syndication transactions, compared with approximately NIS 9.8 billion as at December 31, 2017, of which a total of approximately NIS 4.2 billion in respect of syndication transactions.
- Credit to the public at Bank Hapoalim Switzerland totaled approximately NIS 0.6 billion as at December 31, 2018, compared with approximately NIS 1.4 billion as at December 31, 2017. The decrease resulted from the completion of the transaction for the sale of the private banking customer asset portfolio in Switzerland during the fourth quarter of 2018, and from the continued reduction of the activity of Hapoalim Switzerland.
- Credit to the public at Bank Pozitif in Turkey totaled approximately NIS 0.6 billion as at December 31, 2018, compared with approximately NIS 0.9 billion as at December 31, 2017, further to the Bank's policy of reducing the credit portfolio at Bank Pozitif.

Total deposits from the public in international activity amounted to approximately NIS 19.1 billion as at December 31, 2018, compared with approximately NIS 20.9 billion as at December 31, 2017.

- The balance of deposits from the public at the New York branch totaled approximately NIS 18.1 billion as at December 31, 2018, compared with approximately NIS 14.6 billion as at December 31, 2017. In middle-market activity, deposits totaled approximately NIS 6.8 billion as at December 31, 2016, compared with approximately NIS 6.7 billion as at December 31, 2017. The balance of brokered CD deposits from the public totaled approximately NIS 11.3 billion, compared with approximately NIS 7.8 billion as at December 31, 2017, due to an increase in activity volumes.
- The balance of deposits from the public at Bank Hapoalim Switzerland totaled approximately NIS 1.0 billion as at December 31, 2018, compared with approximately NIS 4.4 billion as at December 31, 2017. The decrease resulted from the transaction for the sale of the private banking customer asset portfolio in Switzerland, and from the continued reduction of the activity of Hapoalim Switzerland, as noted above.

### 2.5. Description of the Bank Group's business by segment of activity based on the management approach

The Bank Group operates in Israel and abroad, and provides a wide range of banking and financial services to its customers. The division into segments of activity according to the management approach is based on types of products and services or on types of customers. The chief operating decision maker of the Bank uses this division to make decisions and to analyze the Group's business results.

Customers' assignments to the segments of activity are based on the actual assignment of customers to the organizational units that serve them, which is performed in accordance with various criteria established by the Board of Management of the Bank. For details regarding the criteria used in this classification and the rules for the distribution of the results of operations among the segments, see Note 28A to the Financial Statements.

As noted in Note 1G to the Financial Statements, the activity of the Isracard Group is classified as a "discontinued operation," beginning with the financial statements for the second quarter of 2018. Accordingly, the reports have been restated such that balance sheet balances of assets and liabilities and results attributed to the discontinued operation, which, prior to this classification, were presented in a separate segment of activity – the "Isracard Group," are presented separately from the continued operations, within the "Adjustments" segment. For further details, see Note 1G to the Financial Statements.

Table 2-26: Results of operations and principal data of the segments of activity based on management approach

| | For the year ended December 31, 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Retail activity | | | Business activity | | | | | |
| | Private customers[1] | Small businesses[2] | Housing loans | Commercial | Corporate | International activity | Financial management[3] | Adjustments[4] | Total |
| | NIS millions | | | | | | | | |
| Net financing profit | **2,767** | **1,624** | **696** | **1,012** | **1,483** | **560** | **2,126** | **83** | **10,351** |
| Fees and other income | **1,520** | **584** | **61** | **388** | **445** | **136** | **153** | **136** | **3,423** |
| Total income | **4,287** | **2,208** | **757** | **1,400** | **1,928** | **696** | **2,279** | **219** | **13,774** |
| Provision (income) for credit losses | **455** | **392** | **37** | **(37)** | **(333)** | **101** | **(2)** | **-** | **613** |
| Operating and other expenses | **3,625** | **1,117** | **246** | **506** | **615** | **1,757** | **471** | **623** | **8,960** |
| Profit (loss) from continued operations before taxes | **207** | **699** | **474** | **931** | **1,646** | **(1,162)** | **1,810** | **(404)** | **4,201** |
| Provision for taxes (tax benefit) on profit (loss) from continued operations | **78** | **259** | **173** | **345** | **611** | **31** | **564** | **(52)** | **2,009** |
| Net profit (loss) from continued operations | **129** | **440** | **301** | **586** | **1,035** | **(1,193)** | **1,250** | **(352)** | **2,196** |
| Net profit from a discontinued operation | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **364** | **364** |
| Net profit (loss) attributed to shareholders of the Bank | **129** | **440** | **301** | **586** | **1,035** | **(1,173)** | **1,265** | **12** | **2,595** |
| Net credit to the public at the end of the reported period | **44,099** | **32,561** | **81,454** | **37,489** | **71,937** | **14,136** | **831** | **14,366** | **296,873** |
| Deposits from the public at the end of the reported period | **187,136** | **42,415** | **-** | **25,259** | **44,150** | **19,017** | **34,283** | **82** | **352,342** |

(1) The segment also includes the balances attributed to credit-card activity which are part of continued operations, including a balance of credit to the public in the amount of NIS 5,035 million.
(2) The segment also includes the balances attributed to credit-card activity which are part of continued operations, including a balance of credit to the public in the amount of NIS 1,527 million.
(3) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented within information regarding supervisory activity segments as a separate segment.
(4) This section includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers. The data also include balances attributed to a discontinued operation. For details, see Note 1G to the Financial Statements.

Table 2-26: Results of operations and principal data of the segments of activity based on management approach (continued)

| | For the year ended December 31, 2017* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Retail activity | | | Business activity | | | | | |
| | Private customers[1] | Small businesses[2] | Housing loans | Commercial | Corporate | International activity | Financial management[3] | Adjustments[4] | Total |
| | NIS millions | | | | | | | | |
| Net financing profit | 2,615 | 1,540 | 549 | 935 | 1,416 | 564 | 1,381 | 76 | 9,076 |
| Fees and other income | 1,500 | 573 | 65 | 381 | 436 | 234 | 146 | 166 | 3,501 |
| Total income | 4,115 | 2,113 | 614 | 1,316 | 1,852 | 798 | 1,527 | 242 | 12,577 |
| Provision (income) for credit losses | 466 | 528 | (3) | (3) | (824) | 37 | 1 | - | 202 |
| Operating and other expenses | 3,547 | 1,087 | 241 | 503 | 625 | 1,138 | 495 | 485 | 8,121 |
| Profit (loss) from continued operations before taxes | 102 | 498 | 376 | 816 | 2,051 | (377) | 1,031 | (243) | 4,254 |
| Provision for taxes on profit from continued operations | 40 | 192 | 145 | 315 | 797 | 21 | 372 | 77 | 1,959 |
| Net profit (loss) from continued operations | 62 | 306 | 231 | 501 | 1,254 | (398) | 676 | (320) | 2,312 |
| Net profit from a discontinued operation | - | - | - | - | - | - | - | 314 | 314 |
| Net profit (loss) attributed to shareholders of the Bank | 62 | 306 | 231 | 501 | 1,254 | (379) | 692 | (7) | 2,660 |
| Net credit to the public at the end of the reported period | 45,857 | 32,393 | 74,124 | 33,859 | 65,494 | 12,902 | 1,224 | 12,810 | 278,663 |
| Deposits from the public at the end of the reported period | 171,518 | 38,227 | - | 24,653 | 42,207 | 20,858 | 49,881 | 7 | 347,351 |

* Reclassified. For additional information, see the explanation in Note 28 to the Financial Statements.

(1) The segment also includes the balances attributed to credit-card activity which are part of continued operations, including a balance of credit to the public in the amount of NIS 5,578 million.

(2) The segment also includes the balances attributed to credit-card activity which are part of continued operations, including a balance of credit to the public in the amount of NIS 1,176 million.

(3) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented within information regarding supervisory activity segments as a separate segment.

(4) This section includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers. The data also include balances attributed to a discontinued operation. For details, see Note 1G to the Financial Statements.

For additional information regarding the segments of activity and analysis of the segments' results, see the section "Activity segments based on management approach" in the Corporate Governance Report.

## 2.6. Principal subsidiary and affiliated companies

### 2.6.1. Subsidiaries in Israel

**Isracard Group**

The Group includes the following companies: Isracard Ltd., Poalim Express Ltd. ("Poalim Express"), Europay (Eurocard) Israel Ltd., Isracard Mimun Ltd., Isracard (Nechasim) 1994 Ltd., Tzameret Mimunim Ltd., and Global Factoring Ltd.

The core activity of the Isracard Group is issuance, clearing, and financing in Isracard credit cards, a private brand under its ownership, as well as in MasterCard, Visa, and American Express credit cards, under licensing agreements. The Group also has activities in the following areas: granting consumer credit other than through credit cards, check payment guarantees and check discounting, direct sales-slip discounting, and factoring (receivables discounting).

The contribution of the Isracard Group to the Bank's net profit amounted to NIS 366 million in 2018, compared with NIS 314 million in 2017.

The Bank's investment in the Isracard Group totaled NIS 3,431 million as at December 31, 2018, compared with NIS 3,064 million at the end of 2017.

The Bank is preparing for the separation of the Isracard Group from the Bank, as required pursuant to the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments), 2017. Within this process, the Bank examined several possibilities for the transfer of the Bank's holdings in the Isracard Group, including sale of its holdings in the Isracard Group to an investor or group of investors; a sale offering to the public of its holdings in the Isracard Group; and distribution of a dividend in kind of the holdings in the Isracard Group to the shareholders of the Bank. On March 7, 2019, the Board of Directors of the Bank resolved to promote the course of separation from Isracard through a sale offering to the public and listing of the shares of Isracard on the Tel Aviv Stock Exchange Ltd. (the "TASE"), and approved submission of a sale offering prospectus for shares of Isracard, which also constitutes a shelf prospectus of Isracard (the "Prospectus"), to the Israel Securities Authority. The Israel Securities Authority granted permission to publish the Prospectus on the same day. Isracard published the Prospectus on March 10, 2019. The final determination regarding the volume and terms of the sale offering (including the price) will be made within a supplementary announcement, to be published. Performance of the sale offering, including the date, volume, and price, is subject to the discretion of the Bank, and will be determined after the date of publication of the Annual Financial Statements for 2018.

Following completion of the sale offering pursuant to the prospectus, the Bank will continue to prepare for completion of the separation of Isracard from the Bank, as required by the Strum Law, based on several possible alternatives, including: a sale of shares constituting a controlling core of Isracard; a private sale without a controlling core; a public offering of the Bank's shares in Isracard to Israeli or foreign investors; distribution of shares or of options to purchase the shares in the form of a dividend in kind; sale on the stock exchange (subject to the blockage rules of the stock exchange, as they may be from time to time); or a combination of any of the foregoing alternatives. At this time, there is no certainty with regard to the manner and timing in which the Bank will choose to complete the separation.

In preparation for the separation, and for the conversion of Isracard into a public company, various preparatory measures were taken shortly before the approval of the Prospectus, including the transfer of the full holdings of the Bank in Poalim Express (a wholly-owned subsidiary, which is the exclusive issuer and clearer of American Express credit cards in Israel) to Isracard (a subsidiary held at a rate of 98.2%), as part of an internal restructuring treated as a business combination under common control, in consideration for its value in the books of the Bank as at September 30, 2018 (NIS 456 million); an update of the operational agreements of the Bank with Isracard and Poalim Express; declaration by the board of directors of Isracard of the distribution of a dividend in a total amount of NIS 867 million (the share of the Bank is NIS 851 million); acquisition of a common POSI insurance policy for the Bank and Isracard to cover liability in connection with the Prospectus; and approval of a trajectory for the payment of a separation bonus to the employees and officers of Isracard, which is contingent upon completion of the sale offering and the terms thereof. Within the Bank's examination of alternatives for the separation, and the preliminary inquiry addressed by the Bank to the Israel Securities Authority, the controlling shareholder Arison Holdings (1998) Ltd. ("Arison") notified the Bank, in a letter, in April 2017 (the "Previous Letter"), that if and inasmuch as the Bank decided to apply a trajectory of distribution in kind of Isracard shares (the "Trajectory"), Arison would commit to acting in accordance with the rules and restrictions that would apply in connection with its holdings in shares of Isracard, as detailed below: (a) Arison will act to sell the shares that it receives within the Trajectory on the Tel Aviv Stock Exchange or outside it, such that upon completion of such sales it does not retain shares of Isracard at a rate of more than 5% (the "Transitional Period"); (b) during the Transitional Period, Arison will not acquire additional shares of Isracard, with the exception of shares received from the Bank through distribution in kind; (c) beginning on the date of the receipt of the Isracard shares by Arison within the Trajectory, in any event, Arison will not vote in Isracard shares at a rate of more than 5% of the voting interests in Isracard; (d) Arison will not propose or appoint a director to serve on its behalf on the board of directors of Isracard. As long as Isracard is controlled by the Bank, all decisions concerning the manner of operation of the control over Isracard and the appointment of directors at Isracard on behalf of the Bank shall be made solely by the authorized organs of the Bank; (e) in the event that Arison executes an off-market sale transaction at a price per share that constitutes a premium over the price of the share on the stock exchange at the relevant date, such that the other shareholders of the Bank are unable to benefit from this premium, Arison shall take measures to ensure that the other public shareholders of Isracard benefit from the premium. The Banking Supervision Department and the Israel Securities Authority were also notified accordingly. At this time, the Banking Supervision Department has not yet approved a permit for Arison to hold shares of Isracard at a rate of more than 5%.

In April and July 2017, the Bank submitted a request to the Israel Securities Authority for preliminary guidance pursuant to which the controlling shareholder of the Bank (at that time) and her representatives on the Board of Directors should not be considered to have a personal interest in the distribution of shares of Isracard as a dividend in kind to the shareholders of the Bank. The Israel Securities Authority gave notice that it would not intervene in this position, particularly in light of the commitment of the controlling shareholder to undertake the rules and limits detailed above. In November 2018, Arison ceased to hold the controlling core of the Bank, and the Bank became a banking corporation without a controlling core. In this context, the directors representing Arison on the Board of Directors of the Bank resigned in September 2018. For additional details regarding the expected change in the structure of control of the Bank, see the section "Other matters" in the Corporate Governance Report, below. In January 2019, Arison Holdings informed the Bank that given that the Trajectory of a distribution in kind had not yet been put into practice, and that on November 22, Arison Holdings ceased to be considered a controlling party of the Bank, if the Bank does decide to proceed with the distribution Trajectory, it will be performed when Arison Holdings is no longer the controlling party of the Bank, and there will be no difference between Arison Holdings and any other shareholder of the Bank in terms of corporate law. Accordingly, Arison Holdings stated that the content of the Previous Letter, including the statements in the Previous Letter in connection with the control premium at Isracard, is no longer relevant for Arison Holdings. It was further stated that for the avoidance of doubt, Arison Holdings still has no intention to control Isracard after the distribution in kind of its shares in accordance with the Trajectory, if and as implemented.

Members of the Board of Management, officers of the Bank, and employees of the Bank involved in strategy or in the management of business activity at the Bank do not serve on the boards of directors of the companies in the Isracard Group; employees of the Bank shall not constitute a majority on the boards of directors of the companies in the Isracard Group; and limits apply to directors on the board of directors of Isracard who are employees of the Bank with regard to the transfer of information from the board of directors of Isracard to the management of the Bank.

The aforesaid changes were performed in accordance with the request of the Banking Supervision Department, in connection with the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel, the process of separation from the Isracard Group mandated by this law, and the reduction of potential conflicts of interest. As at the date of this report, only one of the eight members of the board of directors of Isracard is an employee of the Bank.

For further details regarding the presentation of the Isracard Group as a discontinued operation, see Note 1G to the Financial Statements.

For details regarding VAT assessments in connection with the Isracard Group, see Note 8C(2) to the Financial Statements.

For further details regarding the separation from the Isracard Group, see Note 15E to the Financial Statements.

For details regarding legal claims in connection with the Isracard Group, see Note 25B to the Financial Statements.

For details regarding contractual engagements in issuance and operation agreements with credit-card companies, see Note 25G to the Financial Statements.

For additional details pertaining to the Isracard Group, see the Isracard Group Segment in the section "Segments of activity based on management approach" in the Corporate Governance Report for 2018, and below.

### 2.6.2. Activity of the Bank Group abroad

**Bank Hapoalim (Switzerland) Ltd.** (hereinafter: "Hapoalim Switzerland")

A banking subsidiary, wholly owned by the Bank, incorporated in Switzerland, which was mainly engaged in the provision of private-banking services through branches in Zurich and Luxembourg; it also operated through an investment consulting firm in Israel, and through a representative office in Israel.

In September 2017, the Bank decided to act to discontinue the activity of Hapoalim Switzerland, through the sale of its assets or by other means. The resolution was passed in view of the Bank's risk-management policy, which aims to minimize compliance risks in the Bank Group, including such risks as emerged in connection with the investigation by the United States authorities, and in view of the changes in the global regulatory environment and their effect on such risks. As part of the realization of the decision to discontinue the private-banking activity of Hapoalim Switzerland, a transaction was completed in the fourth quarter of 2018 for the sale of most of the global private banking customer asset portfolio of Hapoalim Switzerland at its branches in Switzerland and Luxembourg to Bank J. Safra Sarasin AG and Banque Safra Sarasin (Luxembourg) SA (jointly, "Safra Sarasin"). As part of the transaction, indemnity arrangements were agreed upon, pursuant to which, among other matters, Hapoalim Switzerland will indemnify Safra Sarasin for payments and expenses of the purchaser in connection with legal proceedings and investigations of government agencies arising from events preceding the completion of the transaction. The Bank is a guarantor for the commitments of Hapoalim Switzerland towards the purchaser. The consideration in respect of the transaction is approximately CHF 20 million (the consideration may be adjusted in the future, in the event that several scenarios in connection with the transferred clients materialize). The profit from this transaction included in the annual statements for 2018 stands at approximately CHF 7.7 million. The remainder will be recognized in the following years.

The loss of Hapoalim Switzerland totaled CHF 314 million in 2018, compared with a loss in the amount of CHF 91.6 million in the same period of the preceding year. The loss mainly resulted from a provision related to the investigation of the Bank Group's business with American customers, and from legal expenses in connection with this investigation. The remainder of the loss resulted from a decrease in activity and from additional provisions related to the closure of the activity.

Following the loss that resulted from the aforesaid provision, which the authorized organs of Hapoalim Switzerland only decided upon in March 2019, and in order for Hapoalim Switzerland to comply with the regulatory capital-adequacy ratio required in Switzerland and avoid being in violation of this requirement, the Bank invested CHF 250 million in the capital of Hapoalim Switzerland in the first quarter of 2019, immediately upon receiving the approval of the Banking Supervision Department for such increase in the investment.

For details regarding the investigation of the Bank Group's business with American customers, see Note 25D to the Financial Statements.

For details regarding the investigation of the Fédération Internationale de Football Association (FIFA), see Note 25E to the Financial Statements.

**Bank Pozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi** (hereinafter: "Bank Pozitif")

The Bank Group currently operates in Turkey through Bank Pozitif, which specializes in corporate banking. Deposit taking is subject to local regulation, and is permitted up to the amount of credit of each borrower.

The Turkish economy experienced an economic and financial crisis during 2018. Turkey has a high deficit in the current account of its balance of payments, and therefore relies on financing sources in foreign currency from other countries. The Turkish economy grew very rapidly in the preceding years, while the deficit in the current account rose and the budget deficit increased. Several factors, such as political tensions between Turkey and the United States and negative investor sentiment towards emerging markets during this period, combined to cause a loss of confidence in the economic policy among investors and sharp depreciation of the Turkish lira. The Turkish lira depreciated steeply, by approximately 59%, against the US dollar in the first nine months of the year. Turkey's credit rating was downgraded to B+ by S&P. Turkey carried out several changes during the last quarter of 2018, such as sharply raising the interest rate, in order to restore investors' confidence and stabilize the currency. The political tensions between Turkey and the United States also decreased. The Turkish lira strengthened by 12.9% against the US dollar during the quarter. The crisis caused a sharp downturn in economic activity, leading to a recession. GDP contracted at an annualized rate of 6.1% in the third quarter, and by 9.4% in the fourth quarter.

The Bank is examining possibilities for the sale of its full holdings in Bank Pozitif, further to the Bank's strategic plan, in which a decision was made to gradually reduce the credit portfolio at Bank Pozitif. In this context, note that on January 20, 2019, the Bank of Israel instructed the Bank to raise the weighting rates of risk-adjusted assets in its calculation of the consolidated capital ratio in respect of the activity of Bank Pozitif, beginning in 2020. For details, see the section "Capital and capital adequacy," above.

The balance of credit to the public totaled TRY 723 million (approximately NIS 512 million) as at December 31, 2018, compared with a total balance of TRY 929 million (approximately NIS 856 million) at the end of 2017.

The business results of the Bank Pozitif Group in 2018 amounted to a loss of TRY 76 million, compared with a loss of approximately TRY 63 million in the same period of the preceding year.

The Bank Pozitif Group's contribution to the Bank's operating results amounted to a negative contribution of approximately NIS 84 million in 2018, compared with a negative contribution of approximately NIS 78 million in the same period of the preceding year.

The Bank's total investment in the Bank Pozitif Group (in capital and loans) amounted to NIS 320 million as at December 31, 2018 (NIS 132 million in capital and NIS 188 million in loans granted in order to comply with liquidity requirements), compared with approximately NIS 215 million (in capital) at the end of 2017.

For details regarding additional companies and further information concerning the international operations of the Bank, see the International Activity Segment in the section "Segments of activity based on management approach" in the Corporate Governance Report for 2018, and below.

## 3. Review of risks

Some of the information in this section, even if it is based on processing of historical data, constitutes forward-looking information, as defined in the Securities Law and as detailed in Section 1.1 above.

Additional information regarding risks is available on the Bank's website, in the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2018, hereinafter the "Report on Risks."

## 3.1. General description of risks and risk management

The Bank has defined the following risks as material risks: credit risk, concentration risk, market risk, investment risk, operational risk (including IT risk and cyber risk), counterparty risk, interest-rate risk in the banking book, liquidity risk, reputational risk, strategic and competitive risk, regulatory risk, and compliance risk. Other risks to which the Bank is exposed are handled directly as part of the management of its business: legal risk, economic risk, and environmental risk.
The risk-management strategy of the Bank Group is designed to support the achievement of the strategic objectives of the Group as a whole, while identifying and quantifying risks, establishing risk ownership, and maximizing business value, taking into consideration costs in terms of risk, by every responsible function at all levels of the organization. Risk management at the Bank is based on a uniform methodology, from a comprehensive perspective, adapted to regulatory requirements, with the aim of supporting informed risk-taking in order to maximize the Group's profitability at a risk level aligned with its risk appetite.
The structure and organization of the risk system described in this section are applicable to all types of risks and to all units of the Bank. Each type of risk is addressed further, separately, as relevant, later in this section. Additional information is available in the Report on Risks.

### 3.1.1. Risk governance and risk management method

The Supervisor of Banks has set forth guidelines concerning risk management in the Proper Conduct of Banking Business Directives. The directives detail the risks to which a banking corporation is exposed and stipulate basic principles for the management and control of risks, including suitable involvement in and thorough understanding of risk management by the board of directors of the banking corporation, the management of risks by a risk manager who is a member of the board of management, the employment of tools for the identification and measurement of risks, and the creation of means for supervision and control, including the existence of an independent risk-management function. The Bank operates in accordance with these guidelines.
Risk management is performed based on a global view of the Bank's activity in Israel and of activity at the Bank's branches abroad, with due attention to the activity of subsidiaries with exposure significant for the Group. The subsidiaries are instructed to manage risks based on the risk strategy and policy of the Group, with adjustments according to the circumstances, which are reported to the parent company. Risks are managed separately by each company in the Bank Group, according to policy formulated by each company's board of directors. The Bank manages the various risks while using hedges for some risks.
Risk control and the assessment of financial risks and operational risks are performed based on a uniform methodology at the Group level, under the direction of the Risk Management Area, taking into account the unique characteristics of the activity of each company. Any risks in new products or processes are identified through an orderly procedure, based on the policy for the launch of new products and processes. Models used to assess risks are tested prior to implementation and periodically, based on the Bank's model validation policy.

The approach taken with regard to control of all financial and operational risks at the Bank involves identification and assessment of the risks, and control of compliance with risk-appetite limits and with additional limits stipulated in the various internal regulations, through three lines of defense:

1. The first line of defense includes the business units within the Areas, including supporting and operational units, that create or take risks, as well as the internal control units within the Areas that provide internal control over the risk creators and risk takers. The management of the business line bears the primary responsibility for routine risk management, aimed at managing risks while striving to achieve strategic goals and business objectives, within the established risk appetite and in accordance with the internal risk regulations and regulatory directives. Controls in the first line of defense are formalized in working procedures.
2. The second line of defense consists of the control units at the Risk Management Area, which is independent of the business Areas. This line is also responsible for presenting an overview of risks; formulating methodologies for risk assessment and for economic capital allocation; independent risk assessment; analyzing the congruence of products and activities with the risk appetite and risk capacity limits established by the Board of Directors; and validating models. The second line of defense contains additional independent control functions, such as accountancy, legal counsel units, the secretariat of the Bank, and human resources.
3. The third line of defense consists of Internal Audit, which operates independently and objectively. Its goals include assisting the organization in achieving its goals through supervision and through ensuring that the instructions of the Board of Management and of the Board of Directors are implemented, and making recommendations for the reduction of risks through improved controls.

The Board of Directors of the Bank is responsible for delineating the overarching risk strategy and supervising the risk-management framework of the Group, directly or through the Risk Management and Control Committee. Main duties of the Board of Directors in the area of risk management:

- Establishing the risk appetite and risk capacity framework of the Group.
- Approving a risk-management policy consistent with the risk-appetite framework, including the establishment of risk limits in the various areas of activity and main risk areas.
- Approving the control concept framework for the Group and ensuring that it meets risk-management needs.
- Providing clear guidance to senior management with regard to risk management, based on the recommendations of the Board of Management Risk Management Committee, headed by the CEO, and ensuring that senior management takes the necessary actions in order to identify, measure, monitor, and control risks.
- Approving methodologies for risk assessment and control, and for the allocation of economic capital in respect of risks.
- Supervising and monitoring the implementation of the established risk-management policy; examining the actual risk profile, including at the level of the Group; and examining the processes and actions that the Bank must apply in order to comply with all regulatory directives concerning risk management.

**Board of Directors' Committee on Risk Management and Control –** The committee's mission is to assist the plenum of the Board of Directors in formulating the Bank's risk-management policy, including establishing risk limits in the various areas of activity, examining the Bank's risk profile, monitoring the implementation of the established risk-management policy, and examining the processes and actions to be implemented by the Bank in order to comply with all regulatory directives concerning risk management. The Board of Directors' Committee on Risk Management and Control and the plenum of the Board of Directors receive reports on risks and on the execution of approved policies at least once each quarter.

**US Risk Management Subcommittee –** The committee's mission is to supervise risk-management policy in the Bank's activity in the United States. The subcommittee examines the risk-management policy of the Bank's activity in the United States, and ascertains that the Bank's activity in the United States is conducted within the bounds of the risk-management policy that has been established.

**Additional committees of the Board of Directors** are engaged in matters related to risk management, most notably the Audit Committee and the Corporate Governance and Stakeholders Committee.

The Board of Management of the Bank, including the managements of the Areas, is responsible for formulating, instilling, and implementing the risk-management framework of the Group, directly or through committees acting on its behalf. Main duties of the Board of Management in the area of risk management:

- Designing a risk-management policy consistent with the risk-appetite framework established by the Board of Directors, including risk limits in the various areas of activity and key risk areas, and submitting this policy to the Board of Directors for approval.
- Establishing internal regulations and risk limits aligned with the policy, appropriate work methods for risk assessment, and decision-making processes based on an analysis of return / business benefit and risk, and receiving the appropriate reports, while ensuring compliance with risk-management policy objectives.
- Ensuring the existence of an internal process for capital assessment and for setting capital targets consistent with the risk profile of the corporation and with its control environment.
- Ensuring the existence of adequate resources for risk management at the corporation, including a framework of internal controls, and the existence of independent, effective, comprehensive control and reporting systems for risks.

**The Board of Management Committee on Risk Management and Compliance, headed by the CEO –** Responsible for designing the Bank's risk-management policy, risk limits, and reporting and control procedures, and for examining the Bank's overall risk profile and the interactions among the various risk types and factors.

**Additional committees of the Board of Management** operate in specific areas of risk, subject to the risk policies and limits established by the Board of Directors and the Board Committees. Committees have also been established that convene under certain conditions, including the Financial Crises Committee and the Banking Emergency Committee.

The Chief Risk Officer (CRO) and the member of the Board of Management responsible for the Risk Management Area is Dr. A. Bachar.

Financial risks are managed by designated members of the Board of Management and under their responsibility.

The principal members of the Board of Management responsible for managing credit risks are the Head of Corporate Banking, Mr. T. Cohen, and the Head of Retail Banking, Mr. R. Stein.

The member of the Board of Management responsible for managing market, investment, and liquidity risks and the Head of Financial Markets and International Banking is Mr. Y. Antebi.

Legal risk is managed by Attorney Y. Almog, Chief Legal Advisor.

Technological risk, including cyber risk, is managed by Ms. E. Ben-Zeev, Head of Information Technology.

Operational risk, excluding legal risk and technological risk, is managed by each member of the Board of Management in the area of activity for which he or she is responsible.

**Risk Management Area –** The activities and responsibilities of the Area are consistent with Proper Conduct of Banking Business Directive 310. The main objectives of the Area are: to instill an advanced culture of risk management and monitoring at the Bank Group, supporting informed risk-taking, with the aim of maximizing the profitability of the Group at a risk level aligned with its risk appetite; to establish risk-management and compliance policies at the level of the Group, in line with the goals of the Group and with the requirements of the Basel Committee and of relevant regulation; and to examine and monitor the overall risk profile of the Bank and its congruence with the risk appetite set by the Board of Directors. Towards that end, the Area develops and implements comprehensive quantitative risk-assessment methodologies and models, used to calculate economic capital, among other matters.

The Area ensures the existence and quality of the key risk-management processes of the Group: identification and assessment of risks, establishment of risk capacity and risk appetite limits, establishment of control mechanisms, monitoring of risks, and reporting. The Area leads and coordinates the ICAAP (the annual Internal Capital Adequacy Assessment Process, taking risks into account) and participates in capital management. The Area comprises four units, headed by the manager of the Area, who has the rank of a Member of Management: (1) the Credit Risk Management Unit, (2) the Operational and Market Risk Management Unit, (3) the Chief Compliance Officer and Securities Enforcement Unit, and (4) the Risk Integration Unit.

In general, reports of the Risk Management Area submitted to the Board of Directors' Committee on Risk Management and Control for discussion are also submitted to the plenum, as a written report or for discussion, as relevant. Pursuant to the policy of the Bank, the risk-reporting system has been established in a manner that allows effective communication both horizontally within the Group and vertically to higher levels of the management chain. The purpose of the reports is to escalate sensitive issues or weaknesses with the potential to cause risk; the reports are performed both on an individual basis and cumulatively, up to the level of the Group as a whole. The reporting system includes the presentation of weaknesses or limitations in risk estimates, as well as significant assumptions on which the estimates are based, and includes routine reports and ad-hoc reports according to need.

**The Risk Management Area also operates several committees, headed by the Chief Risk Officer:**

**Board of Management Committee on Credit Policy Steering –** The committee formulates the credit policy of the Bank.

**Board of Management Committee on Credit Review –** The committee discusses credit review reports prepared for major borrowers of Bank Hapoalim and for risk-based samples of the overall credit portfolio of the Bank, and examines the reliability of the credit rating and the appropriateness of the classifications and allowances of the Group.

**Board of Management Committee on Debt Classification and Determination of the Allowance for Credit Losses –** The committee is engaged in formulating methodology for the collective allowance, formulating policy for classifications and individual allowances, classifying credit, and determining individual allowances for credit losses, subject to the hierarchy of authority.

**Validation Committee –** The committee is responsible for monitoring the status of progress on the plan for validation and improvement of the models in use, approval of validation studies performed, and monitoring and approval of the set of material models in use.

For more extensive information regarding risk management, see the section "Review of risks," below, and the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2018.

### 3.1.2. Risk appetite

Risk appetite is a key tool for linking the organization's strategy, capital allocation, and risk management. The Board of Directors establishes the risk appetite framework, taking into consideration the recommendations of the Chief Executive Officer, the Chief Risk Officer, and the Chief Financial Officer. The risk appetite is translated into targets and limits for the business lines.

The risk appetite framework includes policies, processes, controls, and systems used to implement, communicate, and supervise risk appetite. The risk appetite framework includes a statement of risk appetite and risk capacity, risk limits, and descriptions of the roles and responsibilities of those charged with the implementation and control of the risk appetite framework. The risk appetite framework refers to the material risks to the Bank, and establishes the risk profile in alignment with the Bank's business strategy and risk capacity. An effective risk appetite framework provides a shared structure and means for senior management and the Board of Directors to communicate, understand, and evaluate the level of risk that they are willing to accept. The framework explicitly defines the boundaries within which the Board of Management is expected to operate in order to realize the business strategy of the Bank.

The framework includes the following main components:

Risk appetite statement: Written formulation of the extent and types of aggregate risk that the Bank is interested in bearing in order to achieve its business objectives, including qualitative reports as well as quantitative metrics of profits, capital, risk indicators, liquidity, and other relevant means, as necessary.

Risk capacity: The maximum level of risk that the Bank is able to sustain without violating capital limits relevant to stress tests, including from the perspective of shareholders and customers. Compliance with the risk capacity shall be examined, among other matters, by applying stress tests designed to estimate the impact on the Bank's profit and capital adequacy as a result of the materialization of a stress scenario.

Risk appetite: The maximum total aggregate risk that the banking corporation is willing to bear, within its defined risk capacity, in order to achieve its business objectives in accordance with the strategic plan, under various constraints (such as sources of capital and liquidity, regulatory requirements, risk/return characteristics, etc.).

Risk limits: Quantitative metrics based on forward-looking assumptions, which give practical expression to the aggregate risk appetite statement of the Bank.

### 3.1.3. Stress scenarios

In order to understand the possible consequences of various shocks for the financial robustness of the Bank, both given the existing balance sheet and upon the materialization of work plans and other business intentions, a process of stress testing is carried out. Three types of scenarios are examined at the Bank for this purpose: general systemic scenarios and reverse scenarios are applied to the entire Bank Hapoalim Group, while single-factor scenarios are applied at the level of the sector, transaction, borrower, or portfolio, in certain cases, according to predefined thresholds. The Bank adapts the range and characteristics of the scenarios to financial, political, and environmental developments in Israel and globally. In addition, the Bank implements the directives of the Bank of Israel and applies the uniform stress test established by the Banking Supervision Department, when required.

Goals of analysis of stress scenarios:

- Identification of risk concentrations and potential weaknesses in the Bank's portfolio;
- Examination of the effect of strategic decisions of the Bank;
- Integration in the planning process and examination of the effects of the business plan on potential exposures;

- Examination of the financial robustness of the Bank and evaluation of the potential damage that may be caused by extreme events of various types;
- Analysis of the sensitivity of the Bank to shocks or exceptional but possible events;
- Assessment of the materiality of the various risks;
- Examination of the Bank's compliance with its risk appetite and risk capacity, and breakdown of risk appetite by Area;
- Support for the business units in understanding the risk map of the various areas of activity and sectors;
- Support for the ICAAP and for the formulation of contingency plans in order to minimize the damage of extreme events.

Some of the scenarios are examined daily, while others are examined on a weekly, monthly, quarterly, or annual basis, as relevant. Assumptions, methodology, and results are discussed and approved by the Stress Scenarios and Risk Concentrations Committee and in meetings of the Board of Management and committees of the Board of Directors.

Capital management takes the results of various stress scenarios into consideration, in several ways: first, the capital target of the Bank is determined in view of the risk capacity, which establishes the minimum capital adequacy that the Bank is willing to reach in the event of a stress scenario. Second, capital planning includes contingency plans which the Bank can activate if a stress scenario materializes, in order to improve its capital adequacy. Stress scenarios are tested for each planning year, given the capital targets and expected capital ratio, in order to ascertain that the capital planning ensures compliance with the risk capacity throughout the years of the plan. The Bank also examines the effect of a moderate stress scenario, primarily consisting of changes in the financial markets, including changes in interest rates, spreads, exchange rates, and more, on the capital-adequacy ratio, in order to measure and limit the potential erosion of the capital-adequacy ratio. In liquidity management, the Bank examines internal and regulatory liquidity scenarios.

### 3.2. Credit risk

Credit risk is the risk that a borrower or debtor may default on obligations to the Bank under a credit agreement. The credit portfolio is a major component of the asset portfolio of the Bank Group; therefore, deterioration in the stability of the various borrowers may have an adverse effect on the Group's asset value and profitability.
Activities that create credit risk include:

- **Balance sheet exposures –** Present liabilities to the Bank, such as credit and mortgages to the public, credit to banks and deposits with banks, credit to governments, investment in bonds (corporate and other), and the balance sheet part (positive fair value) of derivatives and financial instruments.
- **Off-balance sheet exposures –** Potential (unrealized) liabilities to the Bank, such as guarantees, unutilized commitments to grant credit, unutilized credit facilities, and potential liabilities arising from changes in the value of transactions in derivative financial instruments.

The credit risk arising from transactions in derivative financial instruments is defined as counterparty risk, which is the risk that the counterparty to the transaction will default before the final settlement of cash flows in the derivatives transaction. For information regarding counterparty credit risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2018.

Another risk arising from the portfolio of credit exposures is concentration risk. Concentration risk arises from non-optimal diversification of specific risks in the credit portfolio, such that the credit portfolio is insufficiently diversified across the various risk factors; for example, when the credit portfolio is composed of a small number of borrowers (name concentration) or has a high degree of exposure to a particular economic sector (sector concentration).

### 3.2.1. Management of credit risks

The goal of credit-risk management is to allow the Group to operate, and to ensure that it operates, in accordance with the policies and strategic objectives established and within the risk appetite defined in the area of credit, from the level of the single transaction to the overview of the credit portfolio.

The Bank's credit risk management policy is based on diversification of the credit portfolio and controlled management of risks. Risk diversification is reflected by the distribution of the Bank's credit portfolio among different sectors of the economy, a large number of borrowers, different linkage segments, and different geographical regions overseas. The policy of distributing risks among economic sectors is based on an evaluation of anticipated developments in the different sectors. For this purpose, the Bank conducts industry-level surveys and economic feasibility studies to evaluate the risk and business potential related to activity in the various economic sectors. The Bank's business objectives are determined in accordance with these surveys and studies.

The credit management system monitors customers' credit exposure. Credit review systems identify, monitor, and report to the responsible function and to managers on negative signs related to borrowers.

Credit-risk management is based on principles including the following:

- **Independence –** The principle of independence is an essential element of proper corporate governance, in order to prevent conflicts of interest and create a system of checks and balances. The goal of this principle is to ensure that the information regarding risks reported to management functions, and in particular to senior management and the Board of Directors, is objective and is not influenced by other considerations, in particular considerations of business success and remuneration for such success.
- **Hierarchy of authority –** The Bank has a hierarchy of authority that outlines a sequence of credit authorizations, according to the level of debt of the borrower or group, the risk rating, and problematic debt classifications, allowing control over the process of approving new credit transactions. The hierarchy of authority provides a definition of individual credit approval thresholds and thresholds for transfer to approval committees, as well as the composition of such committees.
- **Comprehensive view of the customer/group –** Management of risk groups encompassing several borrowers who are related in terms of risk, such as a company and its subsidiaries, a married couple, etc. The activity of customers and groups is overseen by a customer manager who is responsible for all activities of that borrower/group. Information systems continuously provide customer managers and their staff with a comprehensive view of the activity of the customer/group, including the level of credit risk, and in accordance with Proper Conduct of Banking Business Directive 313.

- **Credit policies and procedures –** The Board of Directors of the Bank sets forth the credit policy, which is examined and updated routinely, according to changes in the financial markets and in the economy. This policy includes various limits on the credit portfolio, in accordance with the risk appetite of the Bank, including exposure limits by economic sector, country, or financial institution, as a function of the risk level assessed by the Bank. Limits are also imposed on the maximum exposure to a single borrower, according to the credit rating assigned to the borrower, which reflects the borrower's risk level, as well as a maximum limit for a group of borrowers.
  Credit policy includes the credit risk management policy of the corporation; it formalizes and defines the rules applicable to all parties at the Bank involved with credit risk, and is designed to serve the business goals of Bank Hapoalim, in alignment with its risk policy and risk appetite, and in compliance with regulatory directives.
  Credit policy documents delineate the aspects relevant to each Area (customer type, economic sector, purpose of the loan, etc.), taking risk levels into consideration.
  Adherence to the guidelines of the credit policy in carrying out business operations allows rational management of credit and credit exposures, and serves as a tool for the management of credit risks.
  The credit policies and procedures are binding for everyone involved in the area of credit at the Bank. The policy specifies the principles and considerations related to credit granting, the authority to grant credit, prohibitions and limits applied to credit granting, and the internal regulations that establish the Bank's practices and principles in the areas of credit and collateral.
  The Risk Management Area is responsible for the overall policy of the Bank, and for formulating and coordinating the policies of the business units.
- **Controls and risk identification –** The process of reviewing and identifying credit risks is conducted by the three lines of defense. Controls are applied from the level of each individual credit item to the level of the portfolio, in the first and second lines of defense, according to materiality thresholds. The Credit Risk Management Unit leads and coordinates reports to the Board of Management and Board of Directors regarding trends and changes in the credit portfolio, including the level of credit risk in the portfolio, compliance with limits, special events, analysis of concentration, stress scenarios, and presentation of general risk indicators, in Israel and globally. In the third line of defense, Internal Audit is responsible, among other matters, for reviewing the implementation and effectiveness of risk-management procedures and risk-assessment methodologies, including the implementation of risk management and control policies at the Bank.
  The identification of credit risk in existing products is based on risk management, measurement, and control processes at the various levels. The identification of risk in new products relies on the policy for new products, which specifies the processes to be followed for each new product at the Bank in order to identify all risks involved in the product, assess the extent and materiality of such risk, and provide solutions for the measurement, control, and hedging of the risk.
  A quarterly and annual process has been designed in order to identify risk concentrations and examine the potential implications of various shocks (financial, political, and others) for the financial robustness of the Bank. This process includes definition, examination, and reporting of the results of stress scenarios, and mapping of the effects on profit and on capital adequacy.

- **Credit risk is quantified and measured on several levels -** The level of the individual borrower, borrower groups by area of activity, sectors of the economy, borrower segments, products, and the overall portfolio of the Bank and of the Group. Processes for risk quantification and measurement and for the ranking of borrowers and of credit have been developed and implemented for each area of activity and type of credit. These processes combine assessments by credit experts with decision-making processes and advanced statistical models.
- **Identification and treatment of borrowers in distress –** The Bank has established procedures for the identification and handling of borrowers who, according to the Bank's evaluation, may default on their obligations to the Bank. The Credit Analysis Department and the Credit Review Department in the Risk Management Area determine, in the opinion they prepare, whether the specific customer should be included in the Bank's watch list, whether the customer's rating requires classification, and whether an allowance for credit losses is necessary. Customers identified for a watch list are discussed as part of the quarterly process of examining the fairness of classifications. These borrowers are supervised and monitored more closely, and the Bank works to reduce its exposure to them by redeeming credit from the borrowers' resources and/or by obtaining additional collateral from them. In certain cases, customers are transferred to a division specializing in monitoring and restructuring of customers' debt, or to debt collection units. In addition, the Bank regularly reviews the level of credit risk in borrower portfolios on the basis of conservative assumptions, classifies problematic credit risk according to the directives of the Bank of Israel (impaired, substandard, or under special supervision), and records a sufficient allowance for credit losses in respect of the total credit risk at the Bank.
- **Uniform instruction and training –** Employees involved in the area of credit undergo training and instruction on credit, foreign trade, and mortgages. These sessions provide uniform training to all those involved in this area, imparting professional tools and teaching the Bank's policies and principles in the area of credit. Lessons-learned processes based on various credit events are conducted by the units and communicated to the relevant functions, in accordance with the internal regulations of the Bank.
- **Hedging and risk mitigation –** The Bank manages credit collateral using a collateral system with safety margins that are conservative relative to the safety margins required under the Basel directives, which reduce the value of collateral based on the risk of decline in value and rapid realization. It should be noted that the use of collateral to reduce the Pillar 1 regulatory capital requirement is minor and conservative, relative to the level permitted by the regulator. In this sense, the Pillar 1 capital requirement already reflects a reduction to zero of a considerable part of the collateral against exposures. Concurrently, analysis of the composition of the Bank's collateral portfolio indicates that collateral is highly diversified, including within categories, such as collateral in the form of real estate and collateral in the form of securities. This diversification reduces the probability of a sweeping decline in the value of collateral. In addition to the extensive diversification of this collateral, the Bank conservatively applies safety margins that reduce the value of the collateral.

For additional information regarding credit risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2018.

### 3.2.2. Analysis of credit quality and problematic credit risk

Table 3-1: Problematic credit risk[1][3]

| | December 31, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Balance sheet | Off-balance sheet | Total | Balance sheet | Off-balance sheet | Total |
| | NIS millions | | | | | |
| Impaired credit risk | **2,729** | **582** | **3,311** | 2,629 | 620 | 3,249 |
| Substandard credit risk[2] | **1,451** | **220** | **1,671** | 1,432 | 200 | 1,632 |
| Credit risk under special supervision | **2,432** | **770** | **3,202** | 2,339 | 825 | 3,164 |
| Total problematic credit risk* | **6,612** | **1,572** | **8,184** | 6,400 | 1,645 | 8,045 |
| | | | | | | |
| Net problematic credit risk | **5,492** | **1,452** | **6,944** | 5,327 | 1,495 | 6,822 |
| * Of which, unimpaired debts in arrears of 90 days or more[2] | **808** | **-** | **808** | 913 | - | 913 |

(1) Credit risk – impaired, substandard, or under special supervision.
(2) Including in respect of housing loans for which an allowance based on the extent of arrears exists, and in respect of housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.
(3) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

**Note:**
Balance sheet and off-balance sheet credit risk are presented before the effect of the allowance for credit losses, and before the effect of deductible collateral for the purpose of the indebtedness of borrowers and of groups of borrowers.

Table 3-2: Nonperforming assets*[1]

| | Balance as at | |
|---|---|---|
| | **December 31, 2018** | December 31, 2017 |
| | NIS millions | |
| Impaired credit to the public not accruing interest income (NPL) | **2,178** | 2,073 |
| Assets received upon settlement of debts | **81** | 91 |
| Total nonperforming assets | **2,259** | 2,164 |
| NPL as a percentage of total credit to the public | **0.76%** | 0.77% |

* Nonperforming assets include assets of the Bank that do not accrue interest income. This information is similar to the balance of nonperforming assets presented in the financial statements of banking corporations in the United States. This figure is presented in order to provide disclosure of the part of the Bank's assets included in the financial statements that does not accrue interest income.
(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

Table 3-3: Additional information regarding changes in problematic debts in respect of credit to the public and in the individual allowance[1]

| | For the year ended December 31, 2018 | | |
|---|---|---|---|
| | Commercial | Private | Total |
| | NIS millions | | |
| **Change in balance of impaired debts in respect of credit to the public** | | | |
| Balance of impaired debts at beginning of year | **1,878** | **749** | **2,627** |
| Debts classified as impaired during the period | **877** | **340** | **1,217** |
| Debts returned to unimpaired classification | **(179)** | **(16)** | **(195)** |
| Impaired debts charged off | **(415)** | **(226)** | **(641)** |
| Impaired debts repaid | **(146)** | **(141)** | **(287)** |
| Balance of impaired debts at end of period | **2,015** | **706** | **2,721** |
| **Change in balance in troubled debt restructuring** | | | |
| Balance in troubled debt restructuring at beginning of year | **672** | **636** | **1,308** |
| Restructured during the period | **369** | **352** | **721** |
| Debts in restructuring charged off | **(110)** | **(165)** | **(275)** |
| Debts in restructuring repaid | **(255)** | **(199)** | **(454)** |
| Balance in troubled debt restructuring at end of period | **676** | **624** | **1,300** |
| **Change in balance sheet allowance for credit losses in respect of impaired debts** | | | |
| Allowance for credit losses in respect of impaired debts at beginning of year | **306** | **226** | **532** |
| Provision for credit losses – increase in allowance | **594** | **263** | **857** |
| Provision for credit losses – reduction of allowance | **(77)** | **(103)** | **(180)** |
| Recoveries of debts charged off in previous years | **(679)** | **(131)** | **(810)** |
| Allocated to profit and loss – allowance for credit losses | **(162)** | **29** | **(133)** |
| Charge-offs during the period | **(415)** | **(226)** | **(641)** |
| Recovery of charged-off debts | **679** | **131** | **810** |
| Other | **-** | **3** | **3** |
| Allowance for credit losses in respect of impaired debts at end of period | **408** | **163** | **571** |

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

Table 3-3: Additional information regarding changes in problematic debts in respect of credit to the public and in the individual allowance[1] (continued)

| | For the year ended December 31, 2017 | | |
|---|---|---|---|
| | Commercial | Private | Total |
| | NIS millions | | |
| **Change in balance of impaired debts in respect of credit to the public** | | | |
| Balance of impaired debts at beginning of year | 3,217 | 731 | 3,948 |
| Debts classified as impaired during the period | 788 | 425 | 1,213 |
| Debts returned to unimpaired classification | (102) | (20) | (122) |
| Impaired debts charged off | (833) | (216) | (1,049) |
| Impaired debts repaid | (1,192) | (171) | (1,363) |
| Balance of impaired debts at end of period | 1,878 | 749 | 2,627 |
| **Change in balance in troubled debt restructuring** | | | |
| Balance in troubled debt restructuring at beginning of year | 1,333 | 612 | 1,945 |
| Restructured during the period | 291 | 442 | 733 |
| Debts in restructuring charged off | (125) | (172) | (297) |
| Debts in restructuring repaid | (827) | (246) | (1,073) |
| Balance in troubled debt restructuring at end of period | 672 | 636 | 1,308 |
| **Change in balance sheet allowance for credit losses in respect of impaired debts** | | | |
| Allowance for credit losses in respect of impaired debts at beginning of year | 741 | 141 | 882 |
| Provision for credit losses – increase in allowance | 528 | 345 | 873 |
| Provision for credit losses – reduction of allowance | (128) | (43) | (171) |
| Recoveries of debts charged off in previous years | (969) | (114) | (1,083) |
| Allocated to the statement of profit and loss – allowance for credit losses | (569) | 188 | (381) |
| Charge-offs during the period | (833) | (216) | (1,049) |
| Recovery of charged-off debts | 967 | 116 | 1,083 |
| Other | - | (3) | (3) |
| Allowance for credit losses in respect of impaired debts at end of period | 306 | 226 | 532 |

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

Table 3-4: Credit risk indicators[1]

| | As at | |
|---|---|---|
| | **December 31, 2018** | December 31, 2017 |
| Balance of impaired credit to the public, as a percentage of the balance of credit to the public* | **0.95%** | 0.97% |
| Balance of unimpaired credit to the public, in arrears of 90 days or more, as a percentage of the balance of credit to the public* | **0.28%** | 0.34% |
| Allowance for credit losses in respect of credit to the public, as a percentage of the balance of credit to the public* | **1.31%** | 1.36% |
| Collective allowance for credit losses, as a percentage of the balance of credit to the public* | **1.14%** | 1.20% |
| Allowance for credit losses in respect of credit to the public, as a percentage of the balance of impaired credit to the public* | **138.11%** | 139.02% |
| Allowance for credit losses in respect of credit to the public, as a percentage of the balance of impaired credit to the public plus the balance of credit to the public in arrears of 90 days or more* | **106.49%** | 103.16% |
| Problematic credit risk in respect of the public, as a percentage of total credit risk in respect of the public* | **1.89%** | 1.96% |
| | | |
| Provision (income) for credit losses as a percentage of the average recorded balance of credit to the public | **0.22%** | 0.08% |
| Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public | **0.20%** | 0.21% |
| Net charge-offs in respect of credit to the public as a percentage of the allowance for credit losses in respect of credit to the public | **14.58%** | 15.42% |

* Before deduction of the allowance for credit losses.

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

**Portfolio quality analysis**

Most of the indicators of portfolio quality showed improvement in 2018, as detailed below.

Some indicators of credit risk decreased:

- The balance of unimpaired credit to the public, in arrears of 90 days or more, as a percentage of the balance of credit to the public.
- The allowance for credit losses in respect of credit to the public, as a percentage of the balance of credit to the public.
- The collective allowance for credit losses, as a percentage of the balance of credit to the public.
- Problematic credit risk in respect of the public, as a percentage of total credit risk in respect of the public.

A few indicators showed stability or a minor decrease:

- The balance of impaired credit to the public, as a percentage of the balance of credit to the public.
- NPL as a percentage of total credit to the public.
- Net charge-offs in respect of credit to the public, as a percentage of the average recorded balance of credit to the public.

Only one indicator increased:

- The provision (income) for credit losses as a percentage of the average recorded balance of credit to the public. With regard to other indicators that refer to only to the risk in the portfolio of credit for private individuals, see Table 3-19, below.

**Table 3-5: Composition of the allowance for credit losses[1]**

| | Allowance for credit losses | | | |
|---|---|---|---|---|
| | Individual | Collective | | Total |
| | | According to the extent of arrears | Other* | |
| | NIS millions | | | |
| Composition of the allowance as at December 31, 2018: | | | | |
| In respect of credit to the public | **571** | **424** | **2,763** | **3,758** |
| In respect of debts other than credit to the public | **-** | **-** | **8** | **8** |
| In respect of off-balance sheet credit instruments (included in the item "other liabilities") | **81** | **-** | **487** | **568** |
| Allowance for credit losses as at December 31, 2018 | **652** | **424** | **3,258** | **4,334** |
| Composition of the allowance as at December 31, 2017: | | | | |
| In respect of credit to the public | 532 | 397 | 2,723 | 3,652 |
| In respect of debts other than credit to the public | - | - | 6 | 6 |
| In respect of off-balance sheet credit instruments (included in the item "other liabilities") | 103 | - | 505 | 608 |
| Allowance for credit losses as at December 31, 2017 | 635 | 397 | 3,234 | 4,266 |

* Including a collective allowance in respect of debts examined individually and found to be unimpaired.
(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

Each quarter, a process is conducted to identify customers with problematic potential, based on defined criteria, and all borrowers on watch lists and/or classified as problematic are reviewed. The adequacy of the classification and allowance for these customers is examined. In cases in which the customer's situation has changed, changes have occurred in collateral, and/or collection has been performed, the classification is updated accordingly; for impaired customers, the recoverable amount and the allowance are updated.

The allowance for credit losses increased by NIS 68 million in 2018, mostly due to the collective allowance and the allowance based on the extent of arrears. The allowance for credit losses in respect of credit to the public, as a percentage of the balance of credit to the public, decreased by 0.05% from the beginning of 2018.

**Method for determining rates of collective allowance**

With regard to sound credit or unimpaired problematic credit (substandard or under special supervision), a "collective allowance" is calculated based on the economic sector to which the customer belongs. In order to calculate the collective allowance, the Bank sets two allowance rates for each economic sector, for problematic and sound credit risk, on a quarterly basis, based on an analysis of historical credit losses, net charge-offs, the quality of the credit portfolio in the sector, and an analysis of market trends, in accordance with the instructions of the Bank of Israel.

The process of establishing allowance rates consists of the following three steps, in accordance with the guidelines of the Bank of Israel:

- Calculation of a multi-year average of charge-off rates in the range of years during the period from January 1, 2011, to the quarter preceding the reporting date.
- Adjustments in the event that significant changes occurred over the last quarter.
- Establishment of adjustment coefficients. The purpose of the adjustment coefficients is to reflect changes in the quality of the credit portfolio in the sector, macro-economic trends, and changes in the Bank's procedures and policies for granting credit in the collective allowance rates. The Bank has developed an advanced model for establishing adjustment coefficients, in accordance with the instructions of the Bank of Israel. This model reflects the wide range of environmental risk factors that may affect the rate of credit losses at the Bank. Pursuant to the instructions of the Bank of Israel, the adjustment coefficient of sound balance sheet debt in the sector of credit to private individuals shall not be less than 0.75%, and the rate of the collective allowance in respect of housing loans shall not be less than 0.35% of the balance of loans.

### 3.2.2. Classification and analysis of credit risk by economic sector

Table 3-6: Credit risk by economic sector*

| | December 31, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | Credit losses[4] | | |
| | Total credit risk[1] | Of which: credit execution rating[5] | Of which: problematic credit risk[6] | Of which: impaired credit risk | Provision (income) for credit losses | Net charge-offs | Allowance for credit losses |
| | NIS millions | | | | | | |
| Industry | **33,662** | **32,352** | **1,159** | **377** | **5** | **(15)** | **343** |
| Construction and real estate – construction | **58,197** | **56,509** | **1,127** | **589** | **(99)** | **(134)** | **547** |
| Construction and real estate – real-estate activities | **24,568** | **24,065** | **603** | **313** | **(150)** | **(129)** | **287** |
| Commerce | **37,113** | **35,736** | **805** | **215** | **4** | **103** | **774** |
| Financial services | **34,113** | **33,688** | **89** | **29** | **(20)** | **(1)** | **146** |
| Other business services | **15,839** | **15,272** | **148** | **94** | **72** | **57** | **153** |
| Public and community services | **8,247** | **7,790** | **53** | **22** | **(6)** | **(4)** | **52** |
| Other sectors | **44,463** | **43,098** | **1,708** | **547** | **207** | **156** | **532** |
| Total commercial | **256,202** | **248,510** | **5,692** | **2,186** | **13** | **33** | **2,834** |
| Private individuals – housing loans | **74,636** | **73,635** | **526** | **-** | **40** | **5** | **366** |
| Private individuals – other | **63,331** | **60,746** | **873** | **694** | **458** | **473** | **892** |
| Total public – activity in Israel | **394,169** | **382,891** | **7,091** | **2,880** | **511** | **511** | **4,092** |
| Total banks in Israel | **3,852** | **3,852** | **-** | **-** | **-** | **-** | **-** |
| Israeli government | **34,485** | **34,485** | **-** | **-** | **-** | **-** | **-** |
| Banks in Israel and Israeli government | **38,337** | **38,337** | **-** | **-** | **-** | **-** | **-** |
| Total activity in Israel | **432,506** | **421,228** | **7,091** | **2,880** | **511** | **511** | **4,092** |
| Total public – activity overseas | **38,031** | **35,575** | **1,093** | **420** | **100** | **37** | **233** |
| Banks and governments overseas | **40,000** | **40,000** | **-** | **-** | **2** | **-** | **9** |
| Total activity overseas | **78,031** | **75,575** | **1,093** | **420** | **102** | **37** | **242** |
| Total activity in Israel and overseas | **510,537** | **496,803** | **8,184** | **3,300** | **613** | **548** | **4,334** |

* Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

(1) Balance sheet credit risk and off-balance sheet credit risk[3], including in respect of derivative instruments. Includes debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 265,497, 33,394, 708, 5,982, and 126,925 million, respectively.

(2) Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness.

(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").

(5) Credit risk for which the credit rating at the date of the report is congruent with the credit rating for the execution of new credit, according to the policy of the Bank.

(6) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist which are in arrears of 90 days or more.

Table 3-6: Credit risk by economic sector* (continued)

| | December 31, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | Credit losses[4] | | |
| | Total credit risk[1] | Of which: credit execution rating[5] | Of which: problematic credit risk[6] | Of which: impaired credit risk | Provision (income) for credit losses | Net charge-offs | Allowance for credit losses |
| | NIS millions | | | | | | |
| Industry | 31,603 | 29,931 | 1,012 | 267 | (123) | (71) | 319 |
| Construction and real estate - construction | 60,347 | 58,145 | 1,104 | 678 | (172) | (111) | 535 |
| Construction and real estate – real-estate activities | 22,497 | 21,629 | 466 | 313 | (209) | (99) | 293 |
| Commerce | 35,031 | 31,864 | 1,530 | 279 | 232 | 452 | 873 |
| Financial services | 31,007 | 30,742 | 88 | 31 | (264) | (260) | 167 |
| Other business services | 14,331 | 13,190 | 126 | 73 | 72 | 54 | 135 |
| Public and community services | 7,938 | 7,646 | 45 | 24 | (2) | (3) | 55 |
| Other sectors | 40,649 | 37,815 | 1,684 | 631 | 158 | 120 | 476 |
| Total commercial | 243,403 | 230,962 | 6,055 | 2,296 | (308) | 82 | 2,853 |
| Private individuals – housing loans | 67,586 | 66,466 | 595 | - | (14) | 19 | 333 |
| Private individuals – other | 65,123 | 61,963 | 830 | 719 | 545 | 399 | 906 |
| Total public – activity in Israel | 376,112 | 359,391 | 7,480 | 3,015 | 223 | 500 | 4,092 |
| Banks in Israel | 3,379 | 3,379 | - | - | - | - | - |
| Israeli government | 42,554 | 42,554 | - | - | - | - | - |
| Total activity in Israel | 422,045 | 405,324 | 7,480 | 3,015 | 223 | 500 | 4,092 |
| Total public – activity overseas | 34,004 | 32,407 | 565 | 226 | (21) | 61 | 167 |
| Banks and governments overseas | 51,802 | 51,802 | - | - | - | - | 7 |
| Total activity overseas | 85,806 | 84,209 | 565 | 226 | (21) | 61 | 174 |
| Total activity in Israel and overseas | 507,851 | 489,533 | 8,045 | 3,241 | 202 | 561 | 4,266 |

* Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

(1) Balance sheet credit risk and off-balance sheet credit risk[3], including in respect of derivative instruments. Includes debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 252,007, 41,495, 684, 5,935, and 121,924 million, respectively.

(2) Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, excluding in respect of derivative instruments.

(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").

(5) Credit risk for which the credit rating at the date of the report is congruent with the credit rating for the execution of new credit, according to the policy of the Bank.

(6) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist which are in arrears of 90 days or more.

### 3.2.3. Construction and real estate

Overall credit risk in the construction and real-estate sectors totaled approximately NIS 93 billion as at December 31, 2018.

Table 3-7: Segmentation of credit risk of the Bank Group in the construction and real-estate sectors, by principal area of activity

| | **Balance as at December 31, 2018** | | | Balance as at December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Balance sheet credit risk | Off-balance sheet credit risk | Total credit risk | Balance sheet credit risk | Off-balance sheet credit risk | Total credit risk |
| | NIS millions | | | | | |
| Construction for commerce and services | **2,074** | **831** | **2,905** | 1,681 | 917 | 2,598 |
| Construction for industry | **388** | **112** | **500** | 302 | 134 | 436 |
| Housing construction | **16,675** | ***24,760** | **41,435** | 14,062 | *29,954 | 44,016 |
| Yield-generating properties | **23,508** | **6,206** | **29,714** | 21,368 | 5,262 | 26,630 |
| Other | **10,497** | **8,070** | **18,567** | 9,371 | 7,360 | 16,731 |
| Total construction and real-estate sectors | **53,142** | **39,979** | **93,121** | 46,784 | 43,627 | 90,411 |

* Includes off-balance sheet credit risk in the amount of approximately NIS 6,026 million, in respect of which insurance was acquired from foreign insurance companies for the portfolio of Sale Law guarantees (December 31, 2017: NIS 13,705 million).

### 3.2.4. Credit exposure to foreign countries

Credit exposure to foreign countries reflects the risk that an economic, political, or other event in a foreign country may have a negative effect on the ability of debtors of the various kinds (governments, banks, and others) to meet their obligations to the Bank Group, or may impair the value of the Group's assets, including the possibility that actions taken by foreign governments may eliminate the ability to convert currency and/or transfer currency outside the country (transfer risk).

The risk of exposure to foreign countries is managed at the Bank by individually examining the risks arising from the various countries, taking into consideration the countries' ratings by the international rating agencies S&P, Moody's, and Fitch.

The total exposure to foreign countries includes balance sheet exposures in respect of balance sheet debt balances, net of local liabilities, securities, and other investments attributed to countries other than Israel. The balance sheet exposure was adjusted based on the final risk, taking into account credit reinforcements, which include guarantees, tangible and liquid collateral, insurance contracts, participations in risk, and credit derivatives.

The Bank routinely monitors and examines the macro-economic situation in countries in which it conducts activity.

Information regarding total exposures to foreign countries, and exposures to countries total exposure to each of which constitutes more than 1% of total balance sheet assets or 20% of capital, whichever is lower:

Table 3-8: Principal exposures to foreign countries*(1)

| | December 31 | | | | | |
|---|---|---|---|---|---|---|
| | **2018** | | | 2017* | | |
| | Exposure | | | Exposure | | |
| | Balance sheet | Off-balance sheet(2)(3) | Total | Balance sheet | Off-balance sheet(2)(3) | Total |
| **Country** | | | | | | |
| United States | **21,445** | **7,177** | **28,622** | 30,809 | 7,610 | 38,419 |
| Switzerland | **2,973** | **1,774** | **4,747** | 4,233 | 3,897 | 8,130 |
| England | **7,273** | **4,358** | **11,631** | 7,961 | 3,679 | 11,640 |
| Germany | **795** | **1,894** | **2,689** | 1,020 | 4,155 | 5,175 |
| France | **1,896** | **2,205** | **4,101** | 2,045 | 4,062 | 6,107 |
| Others | **13,567** | **2,921** | **16,488** | 12,379 | 2,342 | 14,721 |
| Total exposures to foreign countries | **47,949** | **20,329** | **68,278** | 58,447 | 25,745 | 84,192 |
| Of which: total exposure to PIIGS (Portugal, Ireland, Italy, Greece, and Spain) | **329** | **612** | **941** | 202 | 134 | 336 |
| Of which: total exposure to LDCs | **1,794** | **259** | **2,053** | 1,871 | 757 | 2,628 |
| Of which: total exposure to countries with liquidity problems | **10** | **-** | **10** | 31 | 6 | 37 |

* Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.
The line "total LDCs" includes the total exposure to countries defined as Least Developed Countries (LDCs) in Proper Conduct of Banking Business Directive 315, "Supplementary Provision for Doubtful Debts."
Balance sheet exposure to a foreign country includes cross-border balance sheet exposure and balance sheet exposure of the branches/subsidiaries of the banking corporation in the foreign country to local residents. Cross-border balance sheet exposure includes balance sheet exposure of the branches/subsidiaries of the banking corporation in Israel to residents of the foreign country, and balance sheet exposure of the overseas branches/subsidiaries of the banking corporation to non-residents of the country in which the branch/subsidiary is located.
Balance sheet exposure of the banking corporation's branches/subsidiaries in a foreign country to local residents includes balance sheet exposure of the branches/subsidiaries of the banking corporation in that foreign country to the residents of the country, less liabilities of those branches/subsidiaries (the deduction is performed up to the level of the exposure).

(1) Based on the final risk, after the effect of guarantees, liquid collateral, and credit derivatives.
(2) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limits on indebtedness of a borrower, according to Proper Conduct of Banking Business Directive 313.
(3) Governments, official institutions, and central banks.

### 3.2.5. Credit exposure to foreign financial institutions

In the course of its routine business operations, the Bank Group is exposed to risk arising from credit exposures to foreign financial institutions.

This risk arises from the range of activities conducted with the financial institutions, such as transactions carried out at the Bank's dealing rooms (deposits of foreign-currency balances and derivatives), purchases of bonds issued by such institutions, foreign-trade transactions, capital-market activity, and account management. The exposure to foreign financial institutions is influenced both by the financial robustness of each institution and by the risk in the political and economic environment in which it operates. It is emphasized that most of the credit exposures of the Bank Group are to financial institutions located in developed markets in Western Europe and North America, rated investment grade or higher.

In the ordinary course of its business, the Bank regularly applies monitoring and controls with respect to developments that may affect the ability of the financial institutions with which it conducts activity to meet their obligations. Concurrently, measures are applied in order to minimize credit risk.

Table 3-9: Exposure of the Bank Group to foreign financial institutions[1][6]

| | December 31, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Balance sheet credit risk[2] | Present off-balance sheet credit risk[3] | Total present credit risk | Balance sheet credit risk[2] | Present off-balance sheet credit risk[3] | Total present credit risk |
| | NIS millions | | | | | |
| **External credit rating[5]** | | | | | | |
| AAA to AA- | **4,071** | **4,868** | **8,939** | 3,755 | 10,907 | 14,662 |
| A+ to A- | **11,237** | **2,517** | **13,754** | 13,751 | 3,729 | 17,480 |
| BBB+ to BBB- | **1,012** | **298** | **1,310** | 1,455 | 288 | 1,743 |
| BB+ to B- | **24** | **55** | **79** | 80 | 69 | 149 |
| Lower than B- | **-** | **-** | **-** | - | - | - |
| Unrated** | **252** | **143** | **395** | 285 | 65 | 350 |
| Total present credit exposures to foreign financial institutions* | **16,596** | **7,881** | **24,477** | 19,326 | 15,058 | 34,384 |
| Of which: problematic credit risk[4] | **-** | **-** | **-** | - | - | - |
| Of which: balance of impaired debts | **-** | **-** | **-** | - | - | - |
| Individual allowance for credit losses | **-** | **-** | **-** | - | - | - |
| Total credit exposure to foreign financial institutions after deduction of the individual allowance for credit losses | **16,596** | **7,881** | **24,477** | 19,326 | 15,058 | 34,384 |
| Collective allowance for credit losses | **8** | **2** | **10** | 7 | 1 | 8 |

* The balances include the exposure of the Bank Group to financial institutions in the following countries:
Spain – Total exposure of approximately NIS 132 million, of which a total of NIS 122 million rated A- and a total of NIS 9 million rated BBB- (total exposure at the end of 2017 was approximately NIS 98 million, of which a total of NIS 65 million rated A-, a total of NIS 11 million rated BBB+, and a total of NIS 22 million rated BBB-).
Ireland – Total exposure of NIS 15 million, unrated (at the end of 2017, exposure to financial institutions was minimal, in the amount of less than NIS 1 million).
Italy – Total exposure of approximately NIS 149 million, of which a total of NIS 143 million rated BBB and the remaining amount of NIS 6 million rated BBB- (total exposure at the end of 2017 was approximately NIS 102 million, of which a total of NIS 85 million rated BBB and the remaining amount of NIS 16 million rated BBB-).
There is no exposure to financial institutions in Greece and Portugal.

** Of which, clearing houses overseas constitute 6% of the balance. The remaining amount is distributed among a long list of banks and financial institutions (December 31, 2017: 71% of the balance).

(1) Foreign financial institutions include: banks, investment banks, broker/dealers, insurance companies, institutional entities, and entities controlled by such entities. However, credit exposure to foreign financial institutions backed by government guarantees is not included.

(2) Deposits with banks, credit to the public, investments in bonds, securities borrowed or purchased in agreements to resell, and other assets in respect of derivative instruments.

(3) Mainly guarantees and commitments to grant credit. Does not include credit risk in off-balance sheet financial instruments, as calculated for the purposes of the limits on indebtedness of a borrower.

(4) Credit risk that is impaired, substandard, or under special supervision.

(5) According to the lowest of the long-term foreign-currency credit ratings assigned by any of the major rating agencies: S&P, Moody's, and Fitch.

(6) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

The exposure of the Bank Group to foreign financial institutions totaled approximately NIS 24.5 billion on December 31, 2018, a decrease of approximately NIS 10 billion, compared with approximately NIS 34.4 billion at the end of 2017. This decrease resulted from a decrease in balance sheet exposure in the amount of approximately NIS 2.7 billion, and a decrease in off-balance sheet exposure in the amount of approximately NIS 7.2 billion. Approximately 93.71% of the exposure to foreign financial institutions is to financial institutions rated A- or higher.

The Bank Group's exposure to foreign financial institutions is distributed as follows: 72.45% in banks and bank holding companies, 26.74% in insurance companies, and 0.81% in another financial institution.

Most of the Bank Group's exposure is to foreign financial institutions operating in the United States (15.8%) and in Western European countries (66.13%).

The sector "banks overseas" in the disclosure of credit risk by economic sector in the section "Review of Risks" includes only exposures in respect of banks abroad, including central banks. Financial institutions are mainly presented in the "financial services" sector. "Total credit risk" also includes balance sheet and off-balance sheet balances in respect of derivatives. The table above does not include exposure in respect of central banks, or off-balance sheet balances in respect of derivatives.

The total of "debts and off-balance sheet credit risk" in the disclosure of credit risk by economic sector in the section "Review of risks" includes credit to the public and deposits with banks, but does not include bonds and securities borrowed or purchased under agreements to resell, which are included in the table above. Balance sheet and off-balance sheet credit in respect of derivatives is not included in the total of "debts and off-balance sheet credit risk." However, the table above includes balance sheet balances in respect of derivatives.

### 3.2.6. Risks in the housing loan portfolio

Table 3-10: Risks in the housing loan portfolio

| | Balance as at | |
|---|---|---|
| | **December 31, 2018** | December 31, 2017 |
| | NIS millions | |
| **Credit balances** | | |
| Loans from Bank funds | **81,454** | 74,521 |
| Loans from Finance Ministry funds* | **1,301** | 1,480 |
| Grants from Finance Ministry funds* | **87** | 76 |
| Total | **82,842** | 76,077 |

| | For the year ended | |
|---|---|---|
| | **December 31, 2018** | December 31, 2017 |
| | NIS millions | |
| **Execution of housing loans** | | |
| **Loans from Finance Ministry funds** | | |
| Loans | **88** | 50 |
| Grants | **30** | 10 |
| Total from Finance Ministry funds | **118** | 60 |
| Total loans from Bank funds | **15,450** | 13,437 |
| Total new loans | **15,568** | 13,497 |
| Old loans refinanced from Bank funds | **1,004** | 709 |
| Total loans extended | **16,572** | 14,206 |

* This amount is not included in balance sheet balances to the public.

**Volume of problematic debt**

The downward trend in amounts in arrears as a percentage of credit balances, and a slight decrease in the rate of the allowance for credit losses based on the extent of arrears, continued in 2018. The percentage of problematic debt remained stable.

Table 3-11: Development of amounts in arrears in housing loans and allowance for credit losses

| | Recorded debt balance in NIS millions | Amount in arrears of more than 90 days | Rate of arrears | Allowance for credit losses based on extent of arrears (including collective allowance) in NIS millions | Rate of allowance for credit losses based on extent of arrears | Problematic debt in NIS millions | Rate of problematic debt |
|---|---|---|---|---|---|---|---|
| **December 31, 2018** | **81,454** | **115** | **0.14%** | **424** | **0.52%** | **1,160** | **1.42%** |
| December 31, 2017 | 74,521 | 140 | 0.19% | 397 | 0.53% | 1,055 | 1.42% |
| December 31, 2016 | 69,254 | 123 | 0.2% | 432 | 0.6% | 1,014 | 1.5% |

**Development of housing credit balances**

Table 3-12: Development of the balance in the housing credit portfolio, by linkage base and as a percentage of the balance in the credit portfolio of the Bank

| | Unlinked segment | | | | CPI-linked segment | | | | Foreign-currency segment | | Total | Rate of change during the period |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Fixed interest rate | | Floating interest rate | | Fixed interest rate | | Floating interest rate | | Floating interest rate | | Recorded debt balance in NIS millions | |
| | Balance in NIS millions | Rate in % | Balance in NIS millions | Rate in % | Balance in NIS millions | Rate in % | Balance in NIS millions | Rate in % | Balance in NIS millions | Rate in % | | |
| **December 31, 2018** | **14,503** | **17.8%** | **31,060** | **38.1%** | **13,539** | **16.6%** | **21,984** | **27.0%** | **368** | **0.5%** | **81,454** | **9.3%** |
| December 31, 2017 | 12,455 | 16.7% | 28,022 | 37.6% | 12,988 | 17.4% | 20,619 | 27.7% | 437 | 0.6% | 74,521 | 7.6% |
| December 31, 2016 | 10,570 | 15.3% | 25,360 | 36.6% | 12,630 | 18.2% | 20,120 | 29.1% | 574 | 0.8% | 69,254 | 3.0% |

**Risk quantification and measurement – housing credit portfolio**

The Bank routinely monitors developments in the housing credit portfolio, and applies various measures to manage risk. Housing credit risks are examined individually, based on the policies and objectives established in the risk appetite set for housing credit, from the level of the individual transaction to an overview of the housing credit portfolio of the Bank.

Risk hedging: The Bank manages and hedges risk, among other means, through limits on various segments, as established in policy discussions of the Board of Management and the Board of Directors, overseen and led by the Risk Management Area. The limits address LTV rates, repayment capability, distribution of credit products in the portfolio, volume of problematic debt, loan durations, geographical distribution, rate of arrears, etc. These indicators are also monitored in comparison to the data of the banking system as a whole.

The Bank tracks conditions and changes in macro-economic indicators in general, and in the business environment of the industry in particular. Certain events require a reexamination of policy, such as a sharp increase in the floating interest rate or in inflation, an increase in unemployment in the Israeli economy, or a material change in housing prices.

Data are reported on a monthly basis in an Area-level risk forum headed by the Head of Retail Banking, and on a quarterly basis as part of the report on developments in the credit portfolio and in credit risk to the Board of Management and Board of Directors.

The Bank uses a statistical model to measure the probability of default and the expected loss in the mortgage portfolio. In addition, stress scenarios are applied to the mortgage portfolio, and the effect on the portfolio and on the Bank as a whole is analyzed. These scenarios include a sharp decline in prices of homes, an increase in the interest rate, and an increase in the unemployment rate. In addition, insurance arrangements are in place (life insurance and building insurance).

Table 3-13: Developments in housing credit balances, last five years

| | **2018** | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| | | | NIS millions | | |
| Balances at end of period | **81,454** | 74,521 | 69,254 | 67,246 | 62,114 |
| Annual change in balances | **9.3%** | 7.6% | 3.0% | 8.3% | 6.6% |
| Execution of new loans | **15,450** | 13,437 | 11,937 | 15,180 | 12,157 |

Balances at the end of the period and market share in the execution of new loans grew in 2018.

**Housing loan data – percentage of total new loans executed**

Table 3-14: Characteristics of housing credit granted by the Bank

| | For the year ended | | |
|---|---|---|---|
| | **December 31, 2018** | December 31, 2017 | December 31, 2016 |
| **Characteristics** | | | |
| Financing rate over 60% | **32.5%** | 27.5% | 24.5% |
| Ratio of repayment to income greater than 40% (for purchases of homes and in monthly payments) | **0.1%** | 0.0% | 0.2% |
| Percentage with floating interest rates varying at a frequency of less than 5 years | **31.7%** | 31.0% | 30.0% |
| Percentage with floating rates | **58.8%** | 57.0% | 55.0% |
| Percentage of all-purpose loans | **6.1%** | 6.4% | 3.9% |
| Loans for investment purposes as a percentage of purchases of homes | **9.8%** | 11.1% | 14.6% |
| Principal planned for repayment after age 67 (excluding investments) | **7.2%** | 6.6% | 6.3% |
| Average original term to maturity of loans for purchases of homes, in years (excluding bridge loans) | **24.4** | 23.8 | 23.2 |

The upward trend in the percentage of credit granted with a financing rate greater than 60% continued in 2018. The percentage of floating-rate loans rose. The percentage of loans granted with payments higher than 40% of income rose slightly, but remained low.

The percentage of principal scheduled for repayment after the age of 67 (excluding investments) increased, while loans for investment purposes as a percentage of purchases of homes and all-purpose loans decreased.

The average term to maturity of loans for purchases of homes (excluding bridge loans) has continued to increase.

### 3.2.7. Credit to private customers (excluding housing)

Credit is granted to private customers in accordance with the credit and collateral policies and procedures, including with respect to the purpose of the credit and the appropriateness of this purpose for the customer's needs, the amount of credit requested, and the appropriateness of the amount for the customer's repayment capability. Credit applications of private customers in the Retail Banking Area, which are approved at the branches, are executed using automated systems, models, and tools that support decision making by the authorized personnel. Credit applications of private customers are submitted and examined at the level of risk groups, as required in the directives of the Bank of Israel. Credit applications are examined with an emphasis on the matters noted above.

Private customers in the Retail Banking Area are offered, among other things, online credit in the form of Instant Credit. The maximum amount of the loan that a customer can receive and the terms of the loan are determined based on various criteria, according to data regarding the customer and the customer's accounts.

Proactive proposals to grant credit to private customers are directed to defined population segments, following the application of regulatory screening and risk screening criteria. Credit is granted in congruence with the customer's needs and repayment capability. In proactive contacts, the customer's attention is directed to the existing financial assets in his or her account, and to an examination of the worthwhileness of taking the credit, given the existing assets and liabilities in the account and the returns in respect thereof, if any. Customers may be contacted through any of the channels in which they are active. In addition, the rules required by regulation are strictly adhered to in proactive contact with customers.

The Bank's growth plan with regard to banking products, including in the area of credit, is based on aspects of growth potential as well as risk aspects, including the expected growth of the economy, customers' repayment capability, the expected volume of repayments, and more. The Bank routinely monitors credit execution and risk.

The Retail Banking Area applies measures to manage credit risk in respect of private individuals, based on the credit risk management principles of the Bank, through measurement and control tools used to monitor the credit portfolio and the quality, risk level, and compliance with policy limits of the credit portfolio, including the following:

Risk assessment model – A statistical model for rating the credit risk of private borrowers in the Retail Banking Area. Borrowers are rated on both the risk of default and the expected loss. The data from the model are used by the authorized parties to make decisions regarding credit, as well as for risk control and reporting to management, and for the identification of trends and changes in the risk level of the portfolio. These data also support focused treatment of risk factors in order to reduce risk and exposure.

Risk appetite – The risk appetite of the Retail Banking Area is established and approved by the Board of Directors on an annual basis. Indicators are monitored and reported routinely.

Credit policies and procedures – The credit policy orders and establishes the rules applicable to all personnel within the Retail Banking Area dealing with credit, and is designed to serve the business goals of the Area, including the management of the credit portfolio while maintaining a specific risk profile, uniform treatment and analysis of credit, matching of credit products to customers' needs, and adherence to regulatory requirements. The policy of the Retail Banking Area regarding consumer credit for private customers is delineated by business rules and models. This policy establishes the manner in which credit granting is handled, including principles and considerations in granting credit, the management of existing credit, and the necessary monitoring, which also encompasses the treatment of customers with signs that may indicate a problem in their ability to service the debt, based on credit and collateral procedures, in accordance with the policy of the Bank.

Hierarchy of authority – The hierarchy of credit authority is a fundamental principle in the management of credit and credit risk at the Bank. The hierarchy of authority provides specifications of individual credit approval thresholds and thresholds for transfer to more senior approval committees, as well as the composition of such committees. The credit authority of each position holder involved in credit is determined according to professional training, knowledge, and experience in the area of credit, as well as the needs of their unit.

Controls – Control processes in the area of credit risks are applied from the level of the individual borrower to the level of the credit portfolio as a whole, in conformity with the policy of the Bank. Reports are submitted to the Board of Management and to the Board of Directors concerning the condition of the credit portfolio of the Retail Banking Area and compliance with the established risk indicators. The reports are based on the results of routine monitoring performed using supporting tools, in order to reflect risk centers and exceptional indicators. Controls at the branches and regional administrations are formalized in the procedures of the Bank. Some controls are computerized, and function as preventative controls; some operate through the identification of risks in automated systems and regular control reports. Controls are defined by the risk centers. Controls are applied at varying volumes, according to the risk level of the unit. The findings of the controls are documented and analyzed in order to draw conclusions and improve risk management.

Poalim Recovery – A process for working with private customers experiencing financial difficulties, in partnership and with the intention of retaining the customer. The Poalim Recovery process is carried out with attention to the enhancement of the customer's financial freedom, and with the provision of a high-quality professional response to the customer's needs and preferences. The service and treatment package for each customer is established differentially, with a focus on matching the package to the characteristics of the customer's activity and financial capabilities. A dedicated unit has been established to manage this process; within the unit, experienced employees have been trained to specialize in working with these customers.

Table 3-15: Balance of credit to private individuals in Israel*

| | Balance as at | | Change | |
|---|---|---|---|---|
| | **December 31, 2018** | December 31, 2017 | | |
| | NIS millions | | | |
| **Balance sheet** | | | | |
| Negative balance in current accounts | **3,892** | 3,525 | 367 | 10.41% |
| Loans[1] | **29,791** | 31,470 | (1,679) | (5.34%) |
| Of which: bullet and balloon loans | **114** | 147 | (33) | (22.45%) |
| Credit for purchases of motor vehicles[2] | **4,375** | 4,593 | (218) | (4.75%) |
| Debtors in respect of credit-card activity | **4,905** | 5,582 | (677) | (12.13%) |
| Total balance sheet credit risk | **42,963** | 45,170 | (2,207) | (4.89%) |
| **Off-balance sheet** | | | | |
| Off-balance sheet credit risk | **20,368** | 19,953 | 415 | 2.08% |
| Total credit risk | **63,331** | 65,123 | (1,792) | (2.75%) |

* Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

(1) Excluding loans for purchases of motor vehicles.

(2) Including loans granted for the purchase of motor vehicles or with a lien on a motor vehicle. For additional details, see Section 3.2.10, "Auto loans," below.

Table 3-16: Distribution of risk of balance sheet credit to private individuals at the Bank, by average income[1] and loan size

| | **December 31, 2018** | | | | December 31, 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Account income | | | Total | Account income | | | Total |
| | Up to NIS 10 thousand | NIS 10 to 20 thousand | Over NIS 20 thousand | | Up to NIS 10 thousand | NIS 10 to 20 thousand | Over NIS 20 thousand | |
| | NIS millions | | | | | | | |
| **Credit per borrower in NIS thousands** | | | | | | | | |
| Up to 20 | **1,676** | **903** | **909** | **3,488** | 1,214 | 378 | 277 | 1,869 |
| 20 to 40 | **1,869** | **851** | **966** | **3,686** | 1,968 | 716 | 555 | 3,239 |
| 40 to 80 | **4,112** | **2,352** | **2,018** | **8,482** | 4,341 | 2,206 | 1,683 | 8,230 |
| 80 to 150 | **4,493** | **4,915** | **4,303** | **13,711** | 4,593 | 4,670 | 3,912 | 13,175 |
| 150 to 300 | **1,216** | **3,596** | **6,645** | **11,457** | 1,375 | 3,328 | 5,950 | 10,653 |
| Over 300 | **143** | **236** | **1,825** | **2,204** | 202 | 253 | 2,031 | 2,486 |
| Total | **13,509** | **12,853** | **16,666** | **43,028** | 13,693 | 11,551 | 14,408 | 39,652 |

(1) Account income was calculated based on the average income over a period of twelve months.

Table 3-17: Distribution of risk of balance sheet credit to private individuals at the Bank, by borrowers' financial asset portfolio balance

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| | Balance sheet credit risk | |
| | NIS millions | |
| **Size of financial asset portfolio, in NIS thousands** | | |
| Up to 10 | **24,760** | 26,768 |
| 10 to 50 | **7,539** | 5,392 |
| 50 to 200 | **5,632** | 3,968 |
| 200 to 500 | **2,470** | 1,716 |
| Over 500 | **2,627** | 1,808 |
| Total | **43,028** | 39,652 |

Table 3-18: Distribution of risk of balance sheet credit to private individuals at the Bank, by type of interest and remaining repayment period

| | **December 31, 2018** | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Loans at floating interest rates | Loans at fixed interest rates | Total | Loans at floating interest rates | Loans at fixed interest rates | Total |
| | NIS millions | | | | | |
| **Repayment period** | | | | | | |
| Up to one year | **5,081** | **5,337** | **10,418** | 5,443 | 453 | 5,896 |
| 1 to 3 years | **7,705** | **93** | **7,798** | 7,867 | 94 | 7,961 |
| 3 to 5 years | **15,495** | **121** | **15,616** | 15,707 | 116 | 15,823 |
| Over 5 years | **9,091** | **105** | **9,196** | 9,880 | 92 | 9,972 |
| Total | **37,372** | **5,656** | **43,028** | 38,897 | 755 | 39,652 |

Table 3-19: Information regarding problematic debts in respect of private individuals in Israel

| | Balance as at | | Change | Percentage of total balance sheet credit risk As at | |
|---|---|---|---|---|---|
| | **December 31, 2018** | December 31, 2017 | | **December 31, 2018** | December 31, 2017 |
| | NIS millions | | | | |
| Problematic credit risk | **873** | 830 | 5.18% | **2.03%** | 1.84% |
| Of which: impaired credit risk | **694** | 719 | (3.48%) | **1.62%** | 1.59% |
| Debts in arrears of more than 90 days | **107** | 97 | 10.31% | **0.25%** | 0.21% |
| Net charge-offs for the period | **473** | 399 | 18.55% | **1.10%** | 0.88% |
| Allowance for credit losses | **892** | 906 | (1.55%) | **2.08%** | 2.01% |

The balance of loans to private individuals in Israel, including credit for the purchase of motor vehicles, decreased by 5.3% in 2018. Total balance sheet credit risk decreased by 4.89% (excluding a balance in respect of a discontinued operation).

The percentage of problematic credit risk increased by approximately 5.2% in 2018, due, among other factors, to the initial implementation of the automatic classification of debts lower than NIS 1 million as under special supervision in the first quarter of 2018, based on fixed criteria, which led to an increase in the balance of problematic debts in respect of private individuals. This figure was relatively stable in the second and third quarters, and decreased significantly in the fourth quarter.

Impaired credit risk decreased in 2018.

The percentage of debts in arrears of more than 90 days rose from 0.21% in December 2017 to 0.25% in December 2018.

The rate of net charge-offs was higher than in December 2017, indicating deterioration in the quality of this portfolio, which was also evident in 2017 and in 2016. The Bank has taken several measures to improve the quality of underwriting in credit to private individuals, and regularly monitors trends in this portfolio.

### 3.2.8. Leveraged financing

Leveraged financing is managed and defined at the Bank in accordance with the directives of the Bank of Israel, and in particular, with Proper Conduct of Banking Business Directive 311 (Credit Risk Management), Proper Conduct of Banking Business Directive 323 (Limits on Financing of Equity Transactions), and Proper Conduct of Banking Business Directive 327 (Management of Leveraged Loans).

Among other matters, leveraged financing includes equity transactions (transactions for the acquisition of an equity interest in another corporation, acquisition of all or a significant part of the assets of another corporation, buybacks of issued shareholders' equity, or capital distribution – payment of a dividend, or another transaction aimed at increasing value for shareholders, as defined in Proper Conduct of Banking Business Directive 323), and financing for borrowers in various segments of specified economic sectors characterized by exceptional levels of certain parameters, relative to the accepted norms in the economic sectors, such as a high financing rate that deviates from the policy for the sector, and financing of mezzanine debt.

The Bank provides leveraged financing to its customers from time to time. An internal limit applies to leveraged financing as a percentage of the Tier 1 capital of the Bank. Developments in leveraged financing and compliance with the established limit are reported each quarter to the Board of Management and the Board of Directors of the Bank, for monitoring of the risks inherent in this type of financing.

Data regarding credit risks in respect of leveraged financing are presented below. The disclosure focuses on exposures of leveraged borrowers/transactions where the credit balance exceeds the amount of 0.5% of Tier 1 capital.

Table 3-20: The Bank's exposures in respect of leveraged financing, by economic sector of the borrower

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Number of borrowers | Balance sheet credit balance | Off-balance sheet credit balance | Total |
| | | NIS millions | | |
| **Economic sector of the borrower** | | | | |
| Construction and real estate – construction | **1** | **257** | **-** | **257** |
| Construction and real estate – real-estate activities | **2** | **658** | **534** | **1,192** |
| Mining and quarrying | **2** | **1,361** | **38** | **1,399** |
| Information and communications | **1** | **266** | **-** | **266** |
| Commerce | **3** | **741** | **170** | **911** |
| Industry | **1** | **225** | **-** | **225** |
| Total | **10** | **3,508** | **742** | **4,250** |

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Number of borrowers | Balance sheet credit balance | Off-balance sheet credit balance | Total |
| | | NIS millions | | |
| **Economic sector of the borrower** | | | | |
| Construction and real estate – construction | 1 | 387 | - | 387 |
| Construction and real estate – real-estate activities | 1 | 551 | 467 | 1,018 |
| Hotels, hospitality, and food services | 1 | - | 200 | 200 |
| Mining and quarrying | 2 | 1,481 | 19 | 1,500 |
| Commerce | 2 | 602 | 340 | 942 |
| Industry | 1 | 208 | - | 208 |
| Total | 8 | 3,229 | 1,026 | 4,255 |

### 3.2.9. Credit risk in respect of exposure to major borrowers

Table 3-21: Balances of balance sheet credit risk and off-balance sheet credit risk to borrowers whose indebtedness exceeds NIS 1,200 million, by sector of the economy

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Number of borrowers | Balance sheet credit risk | Off-balance sheet credit risk | Total |
| | | NIS millions | | |
| **Economic sector** | | | | |
| Industry | **3** | **877** | **5,164** | **6,041** |
| Construction and real estate – real-estate activities | **1** | **756** | **647** | **1,403** |
| Electricity and water supply | **1** | **1,276** | **2,315** | **3,591** |
| Financial services | **3** | **3,077** | **2,571** | **5,648** |
| Total | **8** | **5,986** | **10,697** | **16,683** |

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Number of borrowers | Balance sheet credit risk | Off-balance sheet credit risk | Total |
| | | NIS millions | | |
| **Economic sector** | | | | |
| Industry | 2 | 858 | 3,877 | 4,735 |
| Construction and real estate – construction | 1 | 431 | 902 | 1,333 |
| Construction and real estate – real-estate activities | 1 | 552 | 752 | 1,304 |
| Electricity and water supply | 1 | 1,540 | 1,677 | 3,217 |
| Financial services | 4 | 3,376 | 3,771 | 7,147 |
| Total | 9 | 6,757 | 10,979 | 17,736 |

### 3.2.10. Credit risk in respect of exposure to borrower groups

The Bank conducts monitoring and control processes in order to examine compliance with the limits set forth in Directive 313 with regard to exposure to the indebtedness of borrower groups. As at the reporting date, the Bank is in compliance with the limits.

The definition of capital in this context includes Tier 1 capital, plus Tier 2 capital, as published in the Financial Statements as at December 31, 2015. Tier 2 capital is being reduced in equal installments over twelve quarters, until it reaches zero on December 31, 2018.

**Table 3-22: Credit risk balances for each group of borrowers whose net indebtedness on a consolidated basis exceeds 15% of the capital of the banking corporation (as defined in Directive 313) as at December 31, 2018**

| | Balance sheet credit risk[1] | Off-balance sheet credit risk[1] | Of which: off-balance sheet credit risk in respect of derivative instruments[2] | Gross indebtedness[3] | Deductions[4] | Net indebtedness[5] | Percentage of regulatory capital |
|---|---|---|---|---|---|---|---|
| | NIS millions | | | | | | |
| Borrower group A | **4,169** | **3,178** | **405** | **7,358** | **22** | **7,335** | **18.77%** |
| Borrower group B | **2,642** | **3,459** | **349** | **6,102** | **8** | **6,094** | **15.59%** |

(1) After deduction of the balance of charge-offs and the allowance for credit losses calculated on an individual basis.
(2) Off-balance sheet credit risk in respect of derivative instruments, as calculated for the purposes of the limits on indebtedness of borrowers and of borrower groups.
(3) This amount includes third-party guarantees outside the group.
(4) Deductions permitted under Directive 313, mainly including deposits deposited at the Bank, bonds issued by the State of Israel, and deductible indemnity letters of the State of Israel or financial institutions.
(5) The data presented above represent exposure to borrower groups, and are stated after the permitted deductions pursuant to Directive 313, and after deduction of the allowance for credit losses calculated on an individual basis. These data are therefore not comparable with data regarding borrowers' indebtedness provided in other disclosures in the report.

### 3.3. Market risk

Market risk is the risk of loss or decline in value as a result of change in the economic value of a financial instrument, or of a portfolio of assets/instruments, due to changes in prices, rates, spreads, and other market parameters, including:

- **Interest-rate risk –** The risk of loss or decline in value as a result of changes in interest rates in the various currencies;
- **Currency risk –** The risk of loss as a result of changes in exchange rates;
- **Inflation risk –** The risk of loss as a result of changes in the curve of CPI expectations;
- **Share price risk –** The risk of loss as a result of changes in stock prices or in stock indices;
- **Credit spread risk –** The risk of loss as a result of change in the spread between the yield to maturity of corporate bonds traded in the markets and the relevant risk-free interest rate;
- **Volatility risk –** The risk of loss as a result of changes in the volatility rates quoted in the market;
- **Basis spread risk –** The risk of loss as a result of changes in the spreads between different interest-rate curves or different interest bases.

#### 3.3.1. Management of market risks

Market risks are managed based on a global view of the Bank's activity in Israel and at its branches abroad, taking into account the activity of subsidiaries with significant exposures for the Group. The Board of Management and the Board of Directors approve areas of activity and risk limits. Market risk management policy is aimed at increasing expected profits while maintaining approved, controlled risk levels.

Market-risk management at the Bank differentiates between exposures that arise in the course of routine management of the Bank's assets and liabilities, hereinafter referred to as the banking book (non-trading exposures), and exposures in the trading book (primarily managed in the dealing rooms). With regard to the management of investment risks (share and credit spread risk), see Section 3.3.4 below.

Global management is under the responsibility and direction of the Head of Financial Markets and International Banking. Routine management and supervision of asset and liability management in the banking book and in the trading book are under the responsibility of managers in the Asset and Liability Management Division and in the Dealing Rooms and Brokerage Division, respectively, of the Financial Markets Area in Tel Aviv, and in the Asset and Liability Management Unit and the dealing room at the Bank's New York branch. The branch is professionally subordinate in these matters to the Head of Financial Markets and International Banking.

Policies are guided and controlled by the Board of Management Asset and Liability Management Committee, the Board of Management Nostro Committee, and the Board of Management Investment Committee. Policies, including the established limits and objectives, are submitted for discussion and approval to the committees of the Board of Management, the committees of the Board of Directors, and/or the plenum of the Board of Directors, as relevant. Ongoing activity is conducted by subcommittees, with the participation of senior officers of the Bank.

Market risks are managed separately by each subsidiary in the Bank Group, according to policy established by each company's board of directors and in accordance with Group policy. Market risks are assessed and controlled based on a uniform methodology at the Group level, under the direction of the Risk Management Area, taking into account the size of capital and the unique characteristics of the activity of each subsidiary. Exposures to market risks of the subsidiaries are examined by the Market and Liquidity Risk Management Department in the Risk Management Area, and reported to the Board of Management and the Board of Directors of the Bank at an appropriate frequency based on the risk level. The Bank has set risk limits for the Group that also apply to subsidiaries the risk level of which has been defined as significant for the Group. For additional information regarding the method of risk management, assessment, and control, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2018.

### 3.3.2. Interest-rate risk

Interest-rate risk is the risk of loss or decline in value due to changes in interest rates in the various currencies. This risk, as defined above, also includes the following risk factors:

- **Repricing risk –** Risk arising from timing differences in terms to maturity (in fixed interest rates) and repricing dates (in floating interest rates);
- **Yield curve risk –** Risk arising from different changes in interest rates for different terms to maturity, reflected in changes in the slope of the curve (steepening or flattening) or in its shape (twist);
- **Basis spread risk –** Risk of loss as a result of changes in spreads between different interest-rate curves;
- **Optionality risk –** Risk arising from different exercise rights inherent in assets and liabilities (for example, the right to withdraw funds at any time, sometimes without fines);
- **Value exposure –** The estimated expected change in economic value (financial capital) as a result of changes in the interest rate;
- **Accounting income exposure –** The expected change in accounting income in the coming year as a result of changes in the interest rate.

The Bank, like banks worldwide, is exposed to interest-rate risk both in the banking book and in the trading book. Interest-rate risk is inherent in banking activity. Most of the exposures to this risk arise from the management of the banking book. Interest-rate risk management is part of the management of exposures to market risks.

**Interest-rate risk in the banking book –** Refers to the potential effect of changes in the various interest-rate curves on the economic value of capital and/or on accounting income. The risk emerges during the routine and proactive banking activity of the Bank, as a result of the provision of routine services to the general public and to the business and financial sectors, and from other activities; this includes interest-rate exposure arising from the management of investment portfolios. The risk arises from differences in the structure of assets and liabilities – gaps between segments, durations, interest bases, interest-rate renewal dates, and more.

The exposure to this risk is measured on two levels: (a) value exposure – an estimate of the change in the economic value of the banking book as a result of a change in the interest-rate curve; (b) accounting income sensitivity – the expected changes in accounting income in the banking book as a result of changes in the yield curve (assuming a fixed level of balances). Income exposure is also measured on two levels: income sensitivity of the entire banking book in the next twelve months, and immediate income sensitivity of the instruments measured in accounting based on MTM (excluding accounting hedges).

Limits apply at the Bank both to the sensitivity of economic value and to the sensitivity of income to scenarios of change in the shekel, CPI-linked, and dollar interest-rate curves (including financial subsidiaries under the Bank's management and subsidiaries with exposure significant for the Group). In order to calculate the sensitivity of economic value to changes in interest rates, the Bank refers to all financial assets and liabilities, while treating part of the balances of current-account deposits of the public as a long-term liability spread over several years, in accordance with a model approved by the Board of Management and the Board of Directors each year. Assumptions regarding early repayment of mortgages are also used, in accordance with a model based on statistical analyses and approved by the Board of Management and the Board of Directors. Income sensitivity differs from value sensitivity in that unlike the latter, income sensitivity does not take into account changes in the discounted value of long-term assets and liabilities that are not measured in the statement of profit and loss on a fair-value basis, but does take into account changes in spreads of deposits. Interest-rate risk management policy is aimed, in congruence with the objectives of the Bank, at achieving the desired structure of exposures in each segment (unlinked shekel; CPI-linked shekel; foreign currency and foreign-currency-linked), in accordance with estimates concerning market variables, and subject to limits. Sensitivity to interest rates is measured, in a controlled manner, at least once each month, with more frequent measurements for exposure management purposes. In general, the goal of interest-rate risk management in the Group is to allow service to customers while taking controlled risks.

Derivatives not used for accounting hedges affect the capital of the Bank directly, through the profit and loss account. The Bank uses derivatives and applies hedge accounting rules to hedge some of the interest-rate sensitivity of long-term bonds in foreign currency. The Bank also uses derivatives to hedge sensitivities in the banking book, as well as activity in the trading book. These sensitivities are included in the value sensitivity presented below. In addition to the examination of overall value sensitivity, the Bank also examines the sensitivity of derivatives not used for accounting hedges against designated sensitivity limits that are separate from the overall limits.

**Quantitative information about interest-rate risk – sensitivity analysis**

Table 3-23: Adjusted net fair value* of the financial instruments of the Bank and its consolidated companies**

| | **December 31, 2018** | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | NIS | Foreign currency | Total | NIS | Foreign currency | Total |
| | NIS millions | | | | | |
| Adjusted net fair value* | **32,971** | **1,120** | **34,091** | 27,940 | 1,100 | 29,040 |
| Of which: banking book | **32,822** | **741** | **33,563** | 27,318 | 629 | 27,947 |

* Net fair value of financial instruments, excluding non-monetary items and after the effect of employee benefit liabilities and attribution of on-demand deposits to the periods.

** Includes balances attributed to a discontinued operation. For details, see Note 1G to the Financial Statements.

For further details regarding assumptions used to calculate the fair value of the financial instruments, see Note 32A to the Financial Statements.

Table 3-24: Adjusted net fair value* of the Bank and its consolidated companies after the effect of scenarios of changes in interest rates**

| | **December 31, 2018** | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | NIS | Foreign currency | Total | NIS | Foreign currency | Total |
| | NIS millions | | | | | |
| **Parallel changes** | | | | | | |
| 1% parallel increase | **415** | **211** | **626** | (49) | (73) | (122) |
| Of which: banking book | **441** | **227** | **668** | (30) | (75) | (105) |
| 1% parallel decrease | **(389)** | **(270)** | **(659)** | 35 | 72 | 107 |
| Of which: banking book | **(446)** | **(238)** | **(684)** | (5) | 66 | 61 |
| **Non-parallel changes** | | | | | | |
| Steepening(1) | **(201)** | **119** | **(82)** | (230) | 62 | (168) |
| Flattening(2) | **124** | **(32)** | **92** | 270 | (54) | 216 |
| Increase in short-term interest rate | **122** | **178** | **300** | 311 | (102) | 209 |
| Decrease in short-term interest rate | **(278)** | **(207)** | **(485)** | (406) | 31 | (375) |

* Net fair value of financial instruments, excluding non-monetary items and after the effect of employee benefit liabilities and attribution of on-demand deposits to the periods.

** Includes balances attributed to a discontinued operation. For details, see Note 1G to the Financial Statements.

(1) Steepening – decrease in the short-term interest rate and increase in the long-term interest rate.

(2) Flattening – increase in the short-term interest rate and decrease in the long-term interest rate.

The table above presents the change in adjusted net fair value of all of the financial instruments under the assumption that the noted change occurs in all interest rates, in all linkage segments.

Table 3-25: Effect of scenarios of changes in interest rates on interest income*

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| | Total | |
| | NIS millions | |
| **Parallel changes** | | |
| 1% parallel increase | **1,360** | 1,273 |
| Of which: banking book | **1,390** | 1,304 |
| 1% parallel decrease | **(1,159)** | (1,022) |
| Of which: banking book | **(1,171)** | (1,056) |

* Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

Income sensitivity in 2018 in the table above was calculated according to the management approach, which includes assumptions regarding models of current-account balances and the change in spreads of deposits with changes in the interest rate, in some of the scenarios, and involves the use of interest-rate floors. The sensitivity of the trading book was calculated using the MTM approach. Data for 2017, provided as comparative figures, were calculated using the same assumptions defined for 2018 with regard to models of current-account balances.

For additional information regarding interest-rate risk, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2018.

### 3.3.3. Exchange-rate risk

Currency risks (also known as linkage-base exposure) include exposure to exchange rates of the various currencies against the shekel, and exposure to the consumer price index, at the Bank as a whole.

The Bank operates in currency markets through spot and forward transactions, as well as through options, both on its own behalf and on behalf of its customers. Consequently, the Bank has activity in tradable currencies in developed markets as well as developing markets.

Currency exposure management, including the use of hedging instruments, is part of the management of exposures to market risks, as described above, and is applied both in activity in the banking book and in the activity of the trading desks in the dealing rooms. Ongoing management is conducted within the limits set by the Board of Directors on exposures to foreign currency and to the CPI and on overall exposures, main points of which appear in the summary of limits in the Report on Risks.

#### Currency exposures – market making and trading

Spot/forward desks in foreign currency and in NIS operate in each of the Bank's two dealing rooms. The Tel Aviv dealing room also operates a desk for options in foreign currency and in NIS. Trading and market-making activity in currencies and options is conducted subject to various risk limits and under an overall authorization for NIS/foreign currency exposure allocated to this activity, out of the overall limit on the exposure of the Bank's financial capital to foreign currency.

Table 3-26: Assets and liabilities by linkage base*

| | December 31, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Israeli currency | | Foreign currency[1] | | | Non-monetary items** | Total |
| | Unlinked | CPI-linked | USD | EUR | Other | | |
| | NIS millions | | | | | | |
| Total assets | **322,715** | **49,609** | **67,289** | **7,560** | **5,054** | **8,699** | **460,926** |
| Total liabilities | **275,649** | **41,422** | **86,846** | **11,515** | **4,594** | **3,244** | **423,270** |
| Surplus assets (liabilities) | **47,066** | **8,187** | **(19,557)** | **(3,955)** | **460** | **5,455** | **37,656** |
| Hedging derivatives | **(22,736)** | **553** | **18,841** | **3,996** | **(654)** | **-** | **-** |
| Overall total | **24,330** | **8,740** | **(716)** | **41** | **(194)** | **5,455** | **37,656** |

| | December 31, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Israeli currency | | Foreign currency[1] | | | Non-monetary items** | Total |
| | Unlinked | CPI-linked | USD | EUR | Other | | |
| | NIS millions | | | | | | |
| Total assets | 318,454 | 46,017 | 68,892 | 6,709 | 5,658 | 8,694 | 454,424 |
| Total liabilities | 276,670 | 40,483 | 80,876 | 12,940 | 4,824 | 2,627 | 418,420 |
| Surplus assets (liabilities) | 41,784 | 5,534 | (11,984) | (6,231) | 834 | 6,067 | 36,004 |
| Hedging derivatives | (17,265) | 429 | 11,710 | 6,145 | (1,019) | - | - |
| Overall total | 24,519 | 5,963 | (274) | (86) | (185) | 6,067 | 36,004 |

* Includes balances attributed to a discontinued operation. For details, see Note 1G to the Financial Statements.
** Including derivative instruments whose underlying asset refers to a non-monetary item.
(1) Including linked to foreign currency.

For further details, see Notes 30 and 31 to the Financial Statements as at December 31, 2018.

Table 3-27: Sensitivity to changes in the exchange rates of foreign currencies with a significant volume of activity and to changes in the consumer price index*

| | **December 31, 2018** | | December 31, 2017** | |
|---|---|---|---|---|
| | NIS millions | | | |
| | 10% increase | 10% decrease | 10% increase | 10% decrease |
| USD | **113** | **60** | 40 | (8) |
| EUR | **15** | **16** | (2) | (19) |
| | 3% increase | 3% decrease | 3% increase | 3% decrease |
| CPI | **263** | **(455)** | 241 | (592) |

* Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.
** Restated.

The table above presents an analysis of the sensitivity of the economic value of the Bank to changes in exchange rates, based on revaluation of all balance sheet and off-balance sheet instruments in the risk-management system, using prevalent models for revaluation of each instrument and using representative rates as the baseline exchange rate. For the purposes of the calculation, the portfolio is revalued again at an exchange rate reflecting an increase/decrease at the presented rate, with no additional assumptions. Sensitivity to the consumer price index is calculated according to the exposure of the Bank to the index, as detailed in Note 30 to the Financial Statements, plus the effect of the CPI floor on the expected accounting profit.

### 3.3.4. Share price and credit spread risk: investment risk

Investment risk is defined at the Bank as exposure to the stock market, to credit spreads, and to credit risk in the bond and stock markets in the banking book of the Group (as a result of holdings in these products, the Bank may also be exposed to interest-rate risks and/or currency risks and/or liquidity risks, which are managed separately).

In the management of the investment portfolio, the Bank is exposed to credit risks and credit spreads, in its investments in bonds of companies and of foreign governments. According to the definition at the Bank, Israeli government bonds in NIS and in foreign currency and government bonds of the country in which a branch/subsidiary operates, held by the branch/subsidiary, do not bear investment risk, and are therefore not included in the measurement of investment risk at the Bank.

Investment risk arises at the Bank Group in three frameworks:

- An investment portfolio managed under the responsibility of the Financial Markets and International Banking Area, which consists, in general, of products traded on the financial markets for which price quotes can be obtained. The investment framework was established from a global, systemic perspective, with the approval of the Board of Directors of the Bank, and includes limits on the volume of the investment and on risk indicators including risk appetite, risk capacity, and individual limits for the various investment segments, including diversification limits. This risk is managed under the overarching responsibility of the Financial Markets Area, with respect to the implementation of policy in the Group, allocation of the limits approved by the Board of Management and Board of Directors, monitoring, guidance, and reporting. The activity is managed by a specialized unit established for that purpose, and monitored by the Board of Management Investment Committee, which was established for that purpose, as described in the Report on Risks. Investment activity is permitted at a small number of subsidiaries. Managerial responsibility for the activity of each subsidiary rests with the member of the Board of Management who oversees that company.
- Non-tradable investments, usually performed through the subsidiary Poalim Capital Markets (PCM), according to policy established periodically by the board of directors of PCM, in conformity with the policy of the Group.
- Affiliates: strategic holdings in shares of subsidiaries. For details, see Note 15 to the Financial Statements.

The Group holds shares and bonds, primarily for investment purposes, a decrease in the value of which may damage the profit and loss of the Bank and/or the capital of the Bank.

Table 3-28: Details of the Bank Group's investment in shares in the banking book, by balance sheet classification

| | **December 31, 2018** | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Balance sheet value and fair value | Of which: traded on a stock exchange | Of which: privately held | Balance sheet value and fair value | Of which: traded on a stock exchange | Of which: privately held |
| | NIS millions | | | | | |
| Investments classified into the trading portfolio | **41** | **41** | **-** | 67 | 67 | - |
| Investments classified into the available-for-sale portfolio | **1,480** | **460** | **1,020** | 2,159 | 1,311 | 848 |
| Total investments in shares | **1,521** | **501** | **1,020** | 2,226 | 1,378 | 848 |

For additional information regarding investments, see Note 12 to the Financial Statements.

For details and more extensive information regarding market risks, including interest-rate risk, exchange-rate risk, and investment risk (share and credit spread risk), see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2018.

### 3.4. Liquidity and refinancing risk

**Liquidity risk –** Liquidity risk is defined as present or future risk to the stability and profits of the Bank arising from an inability to sustain the cash flow required for its needs. Liquidity risk at the Bank is examined from a broader perspective, encompassing the ability to repay liabilities on schedule, including during times of stress, without damage to routine operations within the business plans of the Bank and without incurring exceptional losses.

**Refinancing risk –** The risk of inability to raise new resources to replace resources that have matured, or the risk that the reissue may be performed at durations and terms that damage the Bank's net interest income. This risk is managed as part of liquidity risk.

## Management of the risk

Liquidity and refinancing risks are managed based on a global view of the Bank's activity in Israel, at its overseas branches, and at subsidiaries with significant liquidity risk for the Group. The Bank manages routine liquidity and liquidity risk on several levels. The first level is routine liquidity management at the Asset and Liability Management (hereinafter: "ALM") Division, through the NIS and foreign-currency liquidity units, in accordance with the routine needs of the Bank and its customers. Similar activity is carried out at the overseas branches and at the banking subsidiaries. The second level is the management of the Bank's liquidity risk. Liquidity risk at the Bank, in foreign currency and in NIS, is managed and controlled routinely, in accordance with Group policy, with the aim of ensuring the ability to cope competitively even in exceptional supply and demand situations in the financial markets.

In accordance with Proper Conduct of Banking Business Directive 342, "Liquidity Risk Management," the Bank operates an internal model for the assessment of liquidity risk, in addition to the regulatory model. The internal model reflects the approach of the Board of Management with regard to the behavioral characteristics of financial assets and liabilities. This model is based on the proven stability of deposits at the Bank over long periods, and includes different scenarios with respect to rollover and maturity rates of assets and liabilities. In general, while in the ordinary course of business the Bank assumes very high rollover of deposits and credit, in stress scenarios the Bank assumes an exit of deposits, according to types of customers and deposits; utilization of credit lines beyond the usual levels; declines in value of assets; and additional coefficients. These coefficients are examined annually by the Board of Management and Board of Directors of the Bank. In each scenario, the liquidity gap for a period of up to one month against liquid assets is examined, and a liquidity ratio is calculated; this ratio is not to fall below the minimum level specified in the directive. The scenarios applied in the internal model refer to different market conditions, and specifically to a Bank scenario, a system scenario, and a combined scenario. The scenarios differ primarily in the assumptions with regard to rollover of deposits and haircuts for liquid assets. The Bank also applies models for longer and shorter periods; an NSFR-based model for a period of one year; depositor concentration indices; an alert system, including a system that monitors indicators that may point to a risk of a crisis situation, with an action plan; and more. Some of these indicators are subject to internal and/or regulatory limits.

In accordance with Proper Conduct of Banking Business Directive 221, the Bank calculates its stand-alone liquidity ratio on a daily basis, divided into NIS and foreign currency. The Bank tracks this ratio at the subsidiaries (which are required to comply with internal liquidity limits adjusted to the nature of their operations), and calculates the consolidated ratio on a daily basis. The calculation of the consolidated ratio takes into consideration limits that may apply to the transfer of liquidity from some of the subsidiaries during a crisis, particularly banking subsidiaries overseas. The stand-alone ratio of the banking corporation and the consolidated ratio are reported as the average of daily observations. The Board of Directors of the Bank has adopted an internal limit stricter than the regulatory LCR requirement, both for the stand-alone banking corporation and consolidated.

Refinancing risk is managed at the Bank as part of liquidity risk. The Bank has varied sources of financing, primarily deposits from the public, mostly from private customers. As noted below, these sources create low liquidity and refinancing risk, relative to other resources.

Table 3-29: Liquidity coverage ratio*

| | **For the three months ended December 31, 2018** | For the three months ended December 31, 2017 |
|---|---|---|
| | % | |
| **A. Consolidated data** | | |
| Liquidity coverage ratio | **120%** | 122% |
| Minimum liquidity coverage ratio required by the Banking Supervision Department | **100%** | 100% |
| **B. Bank data** | | |
| Liquidity coverage ratio | **118%** | 120% |
| Minimum liquidity coverage ratio required by the Banking Supervision Department | **100%** | 100% |

* Includes balances attributed to a discontinued operation. For details, see Note 1G to the Financial Statements.
The consolidated ratio and the stand-alone ratio for the banking corporation are calculated daily, and reported as an average of daily observations.

The Bank is in compliance with all regulatory and internal liquidity limits. These include, among others, short-term models, such as the LCR and an internal thirty-day model; medium-term models, such as the NSFR-like internal model (financing sources stable for over a year divided by financing needs stable for over a year, as defined at the Bank, in the vein of the recommendations of the Basel Committee); and limits that refer to the long term. In accordance with Proper Conduct of Banking Business Directive 221, as at December 31, 2018, the Bank holds consolidated liquid assets (primarily reserves at central banks, tradable securities backed by sovereigns and central banks, and coins and bills) for times of crisis (after haircuts) in the amount of NIS 107,060 million, in addition to liquid bonds not recognized for the purposes of the calculation of liquid assets. Part of the liquid assets are held by the Bank, and part are held by the subsidiaries. The Bank takes into consideration possible restrictions on the transfer of liquidity between some subsidiaries and the Bank itself, particularly banking subsidiaries overseas. Accordingly, some of the subsidiaries hold liquid assets for times of crisis (or a credit line from the parent company – the Bank), according to need, and the Bank does not rely on these assets. In light of the assumptions regarding rollover of deposits in the ordinary course of business, and other assumptions, the Bank does not foresee liquidity problems that would necessitate the use of the liquid assets; however, it is prepared for the required scenarios.
The Bank has varied sources of financing, primarily deposits from the public. The deposits are taken from a very large number of depositors, with no dependence on any single depositor or group of depositors. Most of the Bank's resources are raised from the public in Israel, particularly private customers. Resources in unlinked NIS mainly derive from these customers, though also to some extent from large institutional and business clients (some of which work directly with the Financial Management Segment). Resources in linked NIS are raised both from the general public and from institutional clients who invest in deposits at the Bank and in bonds and secondary capital issued by the Bank Group. The Bank accords high importance to raising resources that are stable and highly diversified. Funding in foreign currency includes deposits of private customers and corporate clients in Israel, foreign residents, Israeli companies abroad, issues of CDs and other instruments secured by the FDIC in the United States, issues of bonds abroad, and additional resources. Changes in international operations have led to certain changes in the composition of resources at the overseas offices. For details, see the section "International activity" in the chapter "Activity segments based on management approach" in the Corporate Governance Report.

Table 3-30: Balance of total deposits of the three largest groups* of depositors**

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| | NIS millions | |
| Group A | **10,461** | 16,828 |
| Group B | **6,594** | 7,229 |
| Group C | **2,641** | 4,031 |

* "Group" – A depositor, including a controlling party thereof (including others under its control), and a party under its control.
** The three largest groups of depositors at that report date.

For details and more extensive information regarding liquidity risk, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2018, and Note 31, Assets and Liabilities by Currency and by Term to Maturity, in the Annual Financial Statements.

## 3.5. Operational risk

Operational risk is defined as the risk of loss that may be caused by failed or faulty internal processes, human actions, system malfunctions, or external events. The definition includes legal risk, but does not include strategic risk or reputational risk. Failures related to one of the aforesaid factors may cause damage to profitability. The Bank operates control units, including Information Systems Security and Cyber Defense, Business Continuity, Security, the Compliance Officer, and Anti-Money Laundering and Terrorism Financing Prevention, as well as comprehensive procedures and systems in areas related to banking activity, management of human resources, process control, emergency operation, and more.

### 3.5.1. Management of operational risks

Operational risk management strategy is aimed at supporting the achievement of the Group's strategic objectives and maximizing business value, while taking into consideration the costs in terms of risk, by all responsible parties at all levels of the organization. The managerial process is oriented towards execution based on the designation of risk ownership. The goal is for communication and rational treatment of operational risks to contribute to managerial decision-making, based on considerations of business value versus cost in terms of risk, both at the level of the management of the organization and at the level of the various units.

The goals of operational risk management are:

- To ensure effective supervision and management of operational risks in all units of the Group, including risk ownership and decision-making based on cost-benefit considerations.
- To ensure effective identification and communication of operational risks in all substantial business operations of the Group and the supporting units, with the aim of establishing operational risk appetite congruent with the approved strategic objectives of each unit in the Group.
- To establish an internal control structure promoting appropriate values of a culture of awareness, transparency, and efficiency with respect to operational risks within the Group.
- To optimally manage and allocate regulatory capital and economic capital for operational risks.

Responsibility for routine management of operational risk and for activities aimed at mitigating the risk lies with the Area managers and the managers of subsidiaries in the Bank Group. These activities are overseen by the Operational Risk Management Department in the Operational Risk and Market Risk Management Unit, within the Risk Management Area. Routine activity is conducted in the Bank's units and in the Group by a network of operational risk controllers, based on the matrix management principle; controllers report organizationally to Area managers or CEOs of subsidiaries, and receive methodology guidance from the Operational Risk Management Department.

Operational risk management activity is supervised and directed by three forums:

- The Board of Directors' Committee on Risk Management and Control;
- The Board of Management Committee on Risk Management and Compliance, headed by the CEO;
- The Subcommittee on Operational Risk Management.

The operational risk management policy was approved by the Board of Management and the Board of Directors of the Bank. The policy document serves as a framework for operational risk management within the Group, in accordance with uniform principles and reporting duties aimed at complying with the Basel 2 Sound Practices standards. The Bank's activity in this area is conducted according to the rules of Proper Conduct of Banking Business Directive 206, "Capital Measurement and Adequacy – Operational Risk," which refers, among other matters, to regulatory capital allocation in respect of operational risks, and Proper Conduct of Banking Business Directive 350, "Operational Risk Management," which is congruent with the updated guidelines in the Basel document of June 2011 on sound practice for operational risk management.

The Bank operates in accordance with the Basel 2 standardized approach and the corresponding requirements of the Proper Conduct of Banking Business Directives. The strategic plan for the coming years includes, among other matters, extension and expansion of some of the activities, and adjustment for updates of the relevant documents and regulatory guidelines. The following projects and activities, among others, are underway as part of this plan:

- Collection of information regarding operational events in the Bank Group. A database for this purpose was established in late 2002, and is used, among other things, to analyze events, trends, and patterns and to support the mapping and assessment of operational risks to which the Group is exposed.
- Analysis of risk scenarios in activities and processes from a forward-looking perspective.
- Key risk indicators (KRIs) for operational risks have been specified, as part of the development of a monitoring and control infrastructure, with respect to products, processes, or institutional risks. The KRI is a metric that can be measured in quantitative terms, and may also include qualitative information indicating the presence of a particular factor or trend. Thresholds have been set for follow-up, escalation, and treatment, as relevant.
- Lessons-learned processes applied to operational events; relevant information shared among units; organizational learning.
- Quarterly reports are submitted to the Subcommittee on Operational Risk Management, the Board of Management Committee on Risk Management and Compliance, the Board of Directors' Committee on Risk Management and Control, and the plenum of the Board of Directors. The reports include updates on the implementation of the standardized approach in the Group, work plans, the status of projects in progress, information about operational events, assessments of potential risks, trends, changes in the risk profile, and comparative external information.

Routine procedures are performed to identify, map, and assess operational risks and controls at the units of the Bank and the Group, including mapping of the risk of embezzlement and fraud. This activity is conducted based on a uniform methodology in line with the requirements of the Basel Committee and the directives of the Bank of Israel on this matter, including monitoring of the implementation of the recommendations. A comprehensive mapping process of operational risks in all units of the Group is performed every three years. Subsequently, the findings are maintained, updated, and expanded through additional analyses, depth analyses, and risk analyses regarding new products and activities.

The goal of this activity is to identify material risk areas, define risk ownership, assess risks (average and extreme), assess the existing controls, and differentiate low risks from material risks that require additional examination and action, based on cost-benefit considerations, according to the following main ways of coping with risks:

- Minimization of the risk through the application of additional controls.
- Transfer of the risk to a third party (e.g. insurance, outsourcing).
- Absorption of the risk, with quantification thereof.
- Reduction of the activity that creates the risk.

Additional related activities:

- An automated operational risk management system (PAMELA) has been implemented at the units of the Group. The system operates in the areas of collection of information regarding operational events, mapping and assessment of risks and controls, collection of KRIs (key risk indicators), action items, lessons learned, and reports.
- Formulation and implementation of a comprehensive framework of principles and standards for a uniform control concept within the Bank Group. Within this framework, control committees convene and a periodic process is conducted to evaluate the effectiveness of controls.
- Launches of new products or activities, in accordance with the defined policy for the launch of a new product in the Bank Group, are accompanied by examination and analysis of the relevant operational risks involved in the product or activity.
- Definition of a methodological infrastructure for the management of operational risks in material IT processes.
- A special requirement is established in the policy for advance examination prior to outsourcing of an activity, taking into consideration the risks unique to outsourcing.
- Special attention, including the formulation of a dedicated policy, has been devoted to the management of digital banking risks, in accordance with the guidelines in Proper Conduct of Banking Business Directive 367, "Digital Banking."

The operational risk profile is monitored periodically in relation to the operational risk appetite established in the policy, using various parameters, at the level of the Group as a whole and at the level of specific units and processes. The Bank allocates capital in respect of operational risk assets, on the basis of a standardized model defined by the Bank of Israel. Reports on compliance with risk-appetite limits are submitted on a quarterly basis, within the consolidated risk document.

The Bank uses quantitative measures of operational risk appetite that refer to the following parameters: extent of operational damages relative to gross income, according to the Basel standardized approach; rate of increase in damages from year to year; risk scenarios rated at a very high risk level at the level of the Bank Group; and assessment of stress scenarios. In an examination of these parameters, no deviations from the established risk-appetite limits were observed.

### 3.5.2. Information-technology risks

The Bank is dependent upon IT systems and infrastructures for its various activities. Information-technology risk is the risk of damage to the proper activity of the Bank and to customer service, loss, or damage to reputation, due to inadequacy or failure of the IT systems and infrastructures of the Bank. In general, the Bank maintains its information systems and infrastructures, adopts new technologies, and continually acts to provide technological infrastructures in order to allow the operation of its business and the promotion of strategic initiatives at the various Areas, in accordance with the information-technology management policy of the Bank. This policy addresses matters including information and cyber security aspects, principles for backup and recovery in cases of malfunction or disaster, outsourcing and cloud computing, policy for the development and use of new technologies in digital banking, and the management of IT risks. In addition, in order to cope with the challenges of the future, simplify and improve the efficiency of technological platforms, improve response capabilities, and build new abilities, the Bank has decided to carry out a multi-year project for the modernization of its central IT systems.

IT risks are examined routinely, based on accepted methodologies, on the level of material IT processes conducted at the Bank as well as on the level of the information systems and infrastructures used at the Bank. Risks arising from material IT processes are addressed as part of the control approach implemented at the Information Technology Area, by several dedicated professional units reporting to the management of the Area. These units act in accordance with the various regulatory guidelines, such as Proper Conduct of Banking Business Directives 357 and 361. The units include the Information Systems Security and Cyber Defense Department; the Planning and Control, Development Control, and Business Continuity Unit; and the IT Risk Management Unit.

### 3.5.3. Information security and cyber risks

Cyber risk is the risk of damage, including disruption, disturbance, shutdown of operations, theft of property, collection of intelligence, or damage to reputation or the confidence of the public as a result of a cyber event. Cyber activity is conducted as required in the directives of the Bank of Israel, including Proper Conduct of Banking Business Directive 361, "Cyber Defense Management"; Proper Conduct of Banking Business Directive 363, "Supply Chain"; the Protection of Privacy Law, 1981; and other laws, as relevant, with the aim of protecting the information-technology system and minimizing risks. Information security and cyber risks at the Bank are managed by the Information Security and Cyber Defense Unit in the Information Technology Area.

The sophistication and severity of cyber attacks on the global financial sector have grown in recent years. The technological developments and the expansion of digital services, on one hand, and the advanced tools available to attackers, on the other hand, have led to higher exposure to cyber risks.

The Bank invests extensive resources (both human and technological) in strengthening its information security and cyber defense system, in order to cope with the development of these threats. The Bank's defense framework consists of layers of protection using advanced technologies. The Bank operates cyber defense processes in order to minimize the risk of penetration, unauthorized access to information systems, and materialization of attacks, and to ensure the correctness, availability, and confidentiality of its databases. Concurrently, the Bank operates processes to discover and identify cyber events, at all times, including the operation of the Information Security Event Center. The Bank also prepares to contain cyber events and minimize the damage to the assets of the Bank and its customers. The Bank continually works to identify targets to defend, threats, risks, and the effectiveness of defenses, and to build work plans for improvement of the defensive framework accordingly.

The Cyber Risk Management Unit was established in the Risk Management Area during 2018. The unit establishes indices and methodologies for the evaluation of the maturity of defenses, analyzes the business implications of cyber scenarios, challenges the defense system, and examines developments in the area of cyber risk relevant to the technological and business systems of the Bank.

### 3.5.4. Cloud computing risks

The Bank of Israel issued an update of a Proper Conduct of Banking Business Directive, numbered 362(2), in November 2018. This directive eliminates the need to request the approval of the Bank of Israel for material cloud computing, and transfers the authority for management and decision to the Bank. The Bank continues to apply cloud computing in certain areas, and is examining additional uses, with appropriate attention to the derived operational risks, and in accordance with regulatory guidelines, with the aim of allowing realization of the business advantages of the use of cloud-computing services while prudently managing the risks and complying with regulatory requirements.

### 3.5.5. Emergency preparedness

The Bank maintains and implements a continuous plan for emergency preparedness and business continuity (BCMP – business continuity management plan), in accordance with the Bank of Israel's Directive 355, "Business Continuity Management"; Directive 357, "Information Technology Management"; and additional expansions. The Bank's preparedness is based on detailed action plans, working procedures, and periodic tests and drills, defined in a system of emergency procedures. As part of its emergency preparedness, the Bank conducted a lateral process to establish policies, define reference scenarios, map and analyze critical processes and the resources required for the recovery of such processes during an emergency (BIA), and update its action plans based on the prevalent methodologies globally. The action plan involves all Areas of the Bank, through Area-level business continuity officers and designated teams. The BCP is led by a specialized Business Continuity Management Unit, which reports to the Head of Business Continuity of the Bank and to the head of the Bank Emergency Committee (the Head of Information Technology).
The business continuity policy has also been adopted by the subsidiaries in Israel and globally, and at the Bank's overseas branches, in congruence with the corporate-governance policy and the guidelines of the Bank of Israel. In addition, the Bank holds periodic emergency drills covering operational scenarios as well as complex business scenarios, with the participation of the various units, from branches, regional managements, units, and Areas to the Board of Management of the Bank. The Bank has established a new remote central IT site, to ensure the availability and protection of its information systems and of the information itself.
The Israel Standards Institute has affirmed that the business continuity management system of the Bank complies with the requirements of the international standard ISO 22301.
As part of its preparedness for business continuity, the Bank is prepared to handle a range of possible scenarios. With respect to emergency scenarios that may cause the Bank to incur significant damage, red-alert systems are monitored and detailed business continuity contingency plans are in place. Extreme scenarios are reviewed and discussed periodically by the Committee on Extreme Scenarios and Risk Concentrations. The activation of a contingency plan is under the responsibility of the Board of Management or of the designated Board of Management committee responsible for the financial aspects of crisis situations; note that a charter for the establishment of such a committee is also part of the contingency plans.

### 3.5.6. Insurance

The Bank has a banking insurance policy to hedge operational risks, which includes: (1) banking insurance to cover damages that may arise from embezzlement by employees, loss of documents, forged documents, etc.; this policy includes coverage for damages due to computer crimes caused to the Bank and/or its customers as a result of penetration of the computer systems of the Bank by an unauthorized third party; (2) professional liability insurance, to protect against claims filed by customers regarding damage caused by negligent banking actions. These insurance policies are subject to exclusions common in insurance policies of banking corporations in Israel (including an exclusion of damage arising from violation of the directives related to money laundering and terrorism financing).
In addition, the insurance structure of the Bank also includes property insurance, third-party insurance, employers' liability, directors' and officers' liability insurance, and additional insurance policies.
The liability limits in the policies were established by the Bank based on an assessment of the risk involved in the activity of the Group, as part of its overall risk-management policy. Within the fulfillment of the Sound Practice requirements under the Basel guidelines, cooperation and exchanges of information are maintained between the Operational Risk Management Department and the unit that handles banking insurance.

For further information regarding the organizational culture and risk regime of the Group, see the Report on Risks.

## 3.6. Compliance risk

Compliance risk is the risk of imposition of a legal or regulatory sanction, material financial loss, or reputational damage which the banking corporation may suffer as a result of a failure to comply with the compliance directives, as defined in Proper Conduct of Banking Business Directive 308.
Pursuant to Proper Conduct of Banking Business Directive 308, compliance risk also includes risks related to the fairness of the Bank towards its customers, conflicts of interest, the prohibition of money laundering and financing of terrorism (including with respect to tax laws), provision of advice to customers, securities enforcement, protection of privacy (excluding information-technology aspects), the US FATCA directives and the international CRS directives, and taxation aspects relevant to products or services for customers, or directives of a similar nature. Compliance risk also includes the reputational risk that accompanies failure to comply with such directives.
The Bank applies a policy of compliance with all legal and regulatory directives, and works to implement this policy at its units and among its employees. For the purposes of risk management, the key compliance risks against which the Bank seeks to defend itself can be described as the following:

- The risk of material damage arising from a regulatory order of any government agency due to noncompliance of the Bank or of any of its employees with directives concerning the prohibition of money laundering and terrorism financing, or deficiencies in processes designed to ensure such compliance, or the absence of such processes;
- The risk of material damage arising from a regulatory order of a regulatory agency due to improper activity of the Bank or of any of its employees in relation to customers of the Bank, tax issues, or noncompliance with legal directives in these contexts;
- The risk of material damage arising from a regulatory order of a regulatory agency due to noncompliance of the Bank or of any of its employees with securities laws;

- The risk of material damage arising from a class-action suit due to noncompliance with directives that regulate the relationship between the Bank and its customers;
- The risk of a criminal suit against the Bank or against its senior executives due to noncompliance with the law.

Risk indicators are used, among other means, to identify key areas of compliance risk and to monitor their development. The key risk areas and the magnitude of the risks stemming from these areas may change in accordance with changes in regulation, enforcement, the activity of the Bank and of its customers, market developments, etc. The Bank uses quantitative and qualitative indicators to measure this risk. These include developments in regulation and enforcement, changes in customers and in certain products, findings of controls and audits, gap surveys, and more.

The Chief Compliance Officer of the Bank serves in this position, pursuant to Proper Conduct of Banking Business Directive 308, among other matters, as the officer responsible for the duties set forth in the Prohibition of Money Laundering and Prevention of Terrorism Financing Law; as the supervisor of securities enforcement, pursuant to the Law for More Efficient Enforcement Procedures at the Israel Securities Authority; and as the responsible officer pursuant to FATCA. The Chief Compliance Officer and Securities Enforcement Unit consists of the Anti-Money Laundering Unit; the Securities Enforcement and International Compliance Unit; the Customer Relations, Consumer Protection Directives, and Subsidiaries Unit; the International Taxation Compliance Unit; and the Administrative Unit.

The mission of the Chief Compliance Officer Unit is to support the achievement of the strategic and business objectives of the Group, while minimizing exposure to compliance and reputational risks. The objectives of the Chief Compliance Officer Unit are:

- To lead a policy of full implementation of legislation at all units of the Bank, in Israel and worldwide, with an understanding of the needs of the business units and support for their activity;
- To identify, document, and actively assess compliance risks inherent in the business operations of the Bank, using a risk-based approach;
- To monitor and examine compliance in the Bank Group through sample testing, and to report the findings to the organs of the Bank.

The responsibility for routine management of the compliance aspects of risk at the Bank and for the execution of activities aimed at minimizing this risk lies with the Area managers and the managers of subsidiaries in the Bank Group. Professional responsibility in this field, as a second line of defense, rests with the Chief Compliance Officer Unit in the Risk Management Area. Routine activity is conducted at the Bank's units and in the Group by a network of compliance officers, based on the matrix management principle, with organizational subordination to Area heads or CEOs of subsidiaries and professional subordination to the Chief Compliance Officer Unit.

The activity of the Chief Compliance Officer and Securities Enforcement Unit is supervised within corporate governance, through:

- The Board of Directors' Committee on Risk Management and Control;
- The Board of Management of the Bank, headed by the CEO;
- Reports, at least once annually, to senior management and to the Board of Directors on compliance issues.

The compliance policy of the Group sets rules regarding all of the component areas of the compliance issues described above. This policy includes rules regarding corporate governance and the interaction with subsidiaries and branches outside Israel, and is based on legislation and regulation in Israel and in the relevant locations. The Bank Group has established an infrastructure to oversee the disclosure requirements with respect to individuals and corporations in the context of FATCA, and is continuing the process of automating the requirements arising from this legislation and from the Israeli regulation in this area. Similarly, the Bank Group is establishing infrastructure to address disclosure requirements with respect to individuals and corporations in the area of CRS. Israeli law requires financial institutions in Israel to report financial accounts of customers with foreign tax residency, within the CRS treaty for exchanges of information, which Israel has signed. The Income Tax Regulations (Implementation of a Uniform Standard for Reporting and Due Diligence of Information on Financial Accounts), 2019, were passed by the Finance Committee of the Knesset on January 1, 2019. The Bank has also established an overall policy of declared funds, including with regard to foreign-resident customers, aimed at reducing exposure to the presence of unreported funds in the accounts of foreign residents throughout the Bank Group.

### 3.7. Legal risk

Legal risk includes, among other matters, legal claims, rulings, inability to enforce contracts, and exposure to fines, penalties, or punitive damages as a result of supervisory actions and private settlements that may disrupt or adversely affect the activity of the Bank Group. The Group has a structure of internal and external legal counsel in order to contend with this risk.

The Bank takes a broad approach to legal risks, such that these risks encompass risks arising from primary and secondary legislation and regulatory directives, including risks arising from a lack of knowledge regarding the directives of local or foreign law applicable to the activity of the Bank or of the Group, or misinterpretation thereof; rulings of courts, tribunals, and other entities with quasi-judicial authority; actions that are not backed by legal counsel; flawed legal counsel; and risks arising from legal proceedings.

Pursuant to Proper Conduct of Banking Business Directive 350, legal risk is intertwined with operational risk.

Legal risk is managed in accordance with the legal risk exposure management policy document. Subsidiaries in Israel and overseas are required to adopt the aforesaid policy document and formulate their own policy documents accordingly.

Legal counsel submits a quarterly report to the Board of Management and to the Risk Management Committee of the Board of Directors regarding legal risks that have materialized, in comparison to prior estimates on this matter, as well as statistical information regarding the various types of legal proceedings opened or concluded during the relevant period.

For additional information regarding legal risk, see Note 25 to the Financial Statements.

### 3.8. Reputational risk

Reputational risk is defined as present or future risk of damage to income or capital as a result of a negative image in the eyes of relevant stakeholders, such as customers, parties to transactions, shareholders, investors, or regulatory agencies. This risk, which usually accompanies other activities and other risks, may materialize in various ways, such as customer departures, new regulation, and more.

The reputational risk management policy of the Bank Group has been approved by the Board of Management and the Board of Directors, and is implemented by the units of the Group.

The reputational risk management strategy of the Bank Hapoalim Group states that reputational risks should be prevented, minimized, and controlled. Accordingly, the following objectives have been set at the level of the Group with respect to reputational risk:

- To ensure effective supervision and management of reputational risk.
- To ensure effective communication and identification of reputational risk, with the aim of establishing a reputational risk appetite, in accordance with the strategic goals approved for each unit.
- To establish an internal control structure, with the aim of promoting a culture and values of awareness, transparency, and effectiveness in coping with reputational risks.

The Board of Directors and the Board of Management are responsible for promoting high standards of ethics and integrity and for establishing a culture that emphasizes the importance of internal controls.

### 3.9. Regulatory risk

Regulatory risk is risk to the Group's income and/or capital arising from legislative processes and/or draft directives of various regulatory agencies that cause changes in the Group's business environment. Such changes may occasionally influence the Group's ability to offer certain services and/or may obligate the Group to carry out technological and other investments at considerable cost, while disrupting schedules for development of other planned services.

#### 3.9.1. Restrictions and supervision of the activity of the banking corporation

The Bank operates under laws, regulations, and directives, some of which are unique to the banking system, and some of which, even if not unique, affect material parts of its activity. The Banking Ordinance, the various banking laws, and the Proper Conduct of Banking Business Directives issued from time to time by the Supervisor of Banks constitute the central legal foundation for the Bank Group's activity. Among other matters, they define the boundaries of the activities permitted to the Bank, the activities permitted to the subsidiaries and related companies of the Bank Group, the terms of control and ownership of such companies, the relationships between the Bank and its customers, the usage of the Bank's assets, and the manner of reporting such activity to the Supervisor of Banks and to the public.

In addition, the Bank is subject to extensive legislation regulating its activity in the capital market, both on behalf of its customers and on its own behalf (e.g. in the areas of investment advising and customer portfolio management, pension advising, securities laws, and restrictions on insurance activity).

Other laws on specific topics impose specific duties and rules on banks, including the Bank. Examples include the legislation related to the prohibition of money laundering and terrorism financing, the Credit Data Law, legislation related to housing loans, guarantee laws, etc.

Additional legislation related to the Bank's activity has a strong influence on its conduct. Noteworthy in this area are execution laws, liquidation and receivership laws, laws referring to specific segments (local authorities, mortgage takers, home buyers, the agricultural sector), and various tax laws.
The Bank's activity is subject to supervision and auditing by the Banking Supervision Department, as well as by other supervisory agencies in specific areas of activity, such as the Israel Securities Authority; the Capital Market, Insurance, and Savings Authority; the Privacy Protection Authority; the Money Laundering Prohibition Authority; and the Supervisor of Competition. These agencies carry out audits at the Bank, from time to time, concerning the various areas of activity. The Bank and its subsidiaries work to comply with the duties imposed upon them under the said legal provisions.

### 3.9.2. Methods of management of regulatory risk

The Regulation Unit assesses and manages regulatory risks by monitoring, identifying, collecting information, assessing, reporting, conducting follow-ups, and applying controls with respect to regulatory developments, as they emerge. The unit serves as the liaison between the internal units of the Bank and the regulator during the formulation of legislation, with the aim of giving voice to a professional opinion, to lower the risk of non-optimal regulation. The unit also supplies opinions, as relevant, with regard to the effect of forthcoming regulation on the expected business conduct of the various units of the Bank. The unit operates in full cooperation with the relevant professional units of the Bank and at the subsidiaries and offices in Israel and overseas, in order to ensure that regulation is implemented fully and in an effective manner in business terms. With regard to compliance with regulatory directives, see "Compliance risk," above.

For details regarding material regulatory initiatives with an effect on the activity of the Bank during the reported period, see Note 35 to the Financial Statements.

## 3.10. Economic risk

Risk factors in the economic environment are identified by the Economics Department, which tracks current economic and financial data in Israel and worldwide and professionally evaluates the implications of the data. The department maps potential risks in the economy and in the financial markets, and reports to the relevant teams and committees. Concurrently, the department prepares a set of stress scenarios with a possible but low probability of future materialization, which in its opinion may have significant economic and financial consequences for the economy and for the Bank. The stress scenarios are updated annually, according to the risk map, and approved by the authorized parties, in accordance with procedures. Concurrently, the Economics Department examines a series of warning indicators that may signal an increase in the probability of a stress scenario. Warning indicators are reported routinely to the Board of Management Committee on Risk Management.
The Bank translates the market conditions in the scenarios into the impact on its business activity, according to the various risk areas, and examines the effect on its profitability, capital, and capital adequacy, while monitoring risks and segments that may be affected by economic changes in Israel and worldwide, and adapting its policies and control activities as necessary. Among other factors, the Bank examines the securities in its investment portfolio in Israel and overseas, its exposure to foreign financial institutions, and risk areas in the credit portfolio that may be influenced by such developments, and routinely complies with the liquidity requirements, as required by the supervisory directives.

For details regarding conditions in the Israeli and global economy, see the section "Economic review" in the Report of the Board of Directors and Board of Management as at December 31, 2018.

### 3.11. Strategic risk

Strategic risk is material present or future risk to profits, capital, reputation, or status that may be caused by changes in the business environment; faulty business decisions; improper implementation of strategy or business decisions; or failure to respond to changes in the industry (e.g. competitors' actions), the economy, or technology. Strategic risk is also a function of the congruence of the organization's strategic objectives with its environment, adaptation of the business plans that it develops to achieve these objectives, resource allocation, and quality of implementation. As such, this risk constitutes forward-looking information.

The strategic plan of the Bank is a three-year plan approved by the Board of Management and the Board of Directors, and examined and adjusted annually to changes in the business environment in Israel and globally, changes in the Bank's competitive environment, and changes in the Bank's objectives.

The process of formulating the strategic plan encompasses a general examination of the corporation's business and the relevant strategic risks, and a comprehensive planning process. Within the annual planning process, the Board of Management of the Bank examines the future competitive landscape, and builds strategic plans accordingly, in order to respond by preparing as necessary for this future.

The annual strategic planning process consists of four main stages, each of which addresses a different aspect of strategic risk management and assessment:

**Stage 1 –** Identification of the strategic risks to the Bank in its competitive environment. Examination of the factors influencing the Bank's competitive ability and future growth potential, including an examination of global and local trends and the current situation at the Bank. At this stage, according to the findings, the Board of Management and the Board of Directors establish the key strategic goals as well as additional emphases to be addressed during the preparation of the strategic plans. Once every several years (and as necessary), the Board of Management and the Board of Directors also establish the strategic themes for the Bank, which serve as the strategic framework on which the work plans are constructed.

**Stage 2 –** Formulation and approval of the strategic plan. The Bank formulates all of its strategic plans in accordance with the strategic emphases established, synchronized with the financial objectives, taking risk aspects into consideration. The Risk Management Area presents challenges with regard to this activity.

**Stage 3 –** Implementation of strategic planning. The strategy of the Bank is embedded in the strategic maps using the BSC (Balanced Score Card) methodology. The strategic emphases and plans of the Bank are reflected in the BSC maps. The BSC maps consist of goals, indices, and measurable objectives for each index (on both the process level and the level of business results), derived from the strategy, designed to motivate the behavior and performance of the various units, and used to monitor the implementation of the strategic plan and track strategic risk. Significant deviation from the objectives established in the BSC maps may be an indication of partial realization of the strategic plan, and therefore raises concern over an increase in strategic risk.

**Stage 4 –** Linking of the measurement of the BSC indices to the remuneration of officers and senior executives. In order to ensure the importance of the strategic objectives, most of the BSC indices are linked to the personal objectives of the heads of the Areas and of senior executives, including risk-management indices.

### 3.12. Environmental risk

Environmental risk to the Bank is the risk of loss as a result of directives related to the protection of the environment and the enforcement thereof, which may materialize if the Bank bears direct responsibility for an environmental hazard, including the possibility that the Bank may be required to remove an environmental hazard, or may be liable to a third party in respect of an environmental hazard, or as a result of the impairment of realized collateral. This risk may also materialize indirectly as a result of the deterioration of the financial condition of another entity due to environmental costs stemming from directives related to the protection of the environment. Reputational risk may also materialize as a result of the association of the Bank to a party causing environmental damage.

Environmental risks related to large credit portfolios are monitored by the Corporate Banking Area. Environmental risk related to the Bank's own activity is under the responsibility of the Head of Corporate Social Responsibility.

In recognition of its social responsibility, and based on an understanding of the importance of maintaining environmentally sustainable policies, the Bank has formulated a comprehensive, ordered environmental policy. This policy is implemented through an organizational structure and areas of responsibility, procedures, processes, and monitoring systems. As part of the process of managing and assessing its environmental conduct, the Bank received certification under the ISO 14001 standard, which is revalidated annually, in a comprehensive review by a licensed international firm. An extensive description of activities in connection with the environment is presented in the Corporate Social Responsibility Report of Bank Hapoalim, published annually in accordance with the most advanced GRI standard.

The Bank has established policies, working procedures, and methodologies for the identification, specification, and management of environmental risks, in order to address the effect of environmental risk on the credit risk of major borrowers. During the formulation of the process of writing the policies and working procedures, prevalent methodologies at banks overseas were examined, and experts in this field were consulted. The methodology for identification of environmental risks includes, among other matters, reference to the potential environmental risk in an economic sector, as well as individual reference to environmental risks that may have a material effect on the corporation, based on its business activity. The management of environmental risks is part of the overall management of credit risks at the Bank; an assessment of environmental risk is included in evaluations of the quality of credit granted to customers by the Bank.

The Bank, or any senior officer of the Bank, were not a party, during the reported period, to any material legal or administrative proceedings related to the environment.

### 3.13. Risk factor table

Pursuant to the directive of the Bank of Israel, the principal risk factors to which the Group is exposed have been mapped. The risk factors and the Board of Management's estimates regarding the severity of the risk of each factor are listed in the following table. The scale for levels of severity of the risk factors is determined with reference to the risk appetite defined by the Bank. This scale consists of five levels of severity for each risk factor. Quantitative metrics have been established for three of the levels (low, medium, and high):

- **Low severity level –** The damage to annual profit due to an extreme event would be smaller than the average annual profit before tax in the ordinary course of business; in other words, an extreme event would not cause the Bank to move to a loss.
- **Medium severity level –** The damage to annual profit due to an extreme event would be larger than the average annual profit before tax in the ordinary course of business, and would therefore cause the Bank to move to a loss in at least one of the years of occurrence of the event, and would cause a decrease in the Tier 1 capital ratio; however, the capital ratio would not fall below the risk capacity that has been established (6.5%).
- **High severity level –** The damage to profit due to an extreme event would cause the Tier 1 capital ratio to fall below the risk capacity of the Bank.

In order to quantify the effect of the risk factors on the Bank's profit and capital ratio, systemic extreme scenarios and single risk factor scenarios were examined for most of the risk factors, and the scenario with the more severe effect was used in the risk-factor table. Note that this quantification refers to the effect on the capital of the Bank. Possible scenarios may involve a decrease in profit, or losses, with a non-negligible effect on the profitability of the Bank; however, the effect of these scenarios on capital adequacy is low, and they are therefore classified at a low level of severity. In addition, when the team of experts estimates that the quantitative indicators do not sufficiently express the severity of the risk factor, or when it is not possible to determine the risk level of a particular risk factor using reliable quantitative methods, the opinion of the team of experts is taken into consideration.

Each risk factor listed in the table below was tested in its own right, under an assumption of independence of each risk factor relative to the other risk factors listed in the table. However, for the risk factors "condition of the global economy" and "condition of the Israeli economy" in the table, systemic scenarios were tested to estimate the effect on profit and on the capital ratio of the combination of a number of risk factors. It is emphasized that the risk scenarios simulate a situation in which unexpected damages materialize beyond the expected level of damage events in the regular course of the Group's business.

The Bank also assesses the level of risk using another method, based on expert evaluations of the inherent risk level, the quality of risk management, the effectiveness of controls, and the residual risk. The inherent risk is the aggregate risk inherent in the activity in which the Bank engages, and is defined as the potential loss from this activity. Inherent risk is evaluated from a forward-looking perspective as well as in view of the past, but without taking management and control processes into consideration. In order to estimate the residual risk, taking into account management and control processes, evaluations by content experts from the second line of defense were added to the model, addressing the quality of risk management and the effectiveness of controls.

The combination of estimates using the two methods to obtain an overall assessment of residual risk, presented in the table below on a scale of five levels of severity, was performed as an expert evaluation, reflecting the input of the experts in the various areas, and is subject to all of the qualifications noted with respect to forward-looking information.

Table 3-31: Severity of risk factors

| | Risk factor | Risk effect |
|---|---|---|
| **Financial risks** | | |
| **1.** | Credit risk (including counterparty risk) | Medium |
| **1.1.** | Risk in respect of the quality of borrowers and/or collateral | Medium |
| **1.2.** | Risk in respect of sectoral concentration | Medium |
| **1.3.** | Risk in respect of concentration of borrowers/borrower groups | Medium |
| **2.** | Market risk | Low-Medium |
| **2.1.** | Interest-rate risk | Low-Medium |
| **2.2.** | Inflation risk/exchange-rate risk | Low |
| **2.3.** | Share price and credit spread risk | Low-Medium |
| **3.** | Liquidity risk | Low-Medium |
| **Operational and legal risks** | | |
| **4.** | Operational risk | Low-Medium |
| **4.1.** | Of which: cyber risk | Medium |
| **4.2.** | Of which: IT risk | Low-Medium |
| **5.** | Legal risk | Low |
| **Other risks** | | |
| **6.** | Reputational risk | Low-Medium |
| **7.** | Strategic and competitive risk | Medium |
| **8.** | Regulatory and legislative risk | Medium |
| **9.** | Economic risk – condition of the Israeli economy | Medium |
| **10.** | Economic risk – condition of the global economy | Medium |
| **11.** | Compliance risk* | Medium |

* Compliance risk also includes risks arising from the investigations by United States authorities, as noted in Notes 25D and 25E to the Financial Statements.

## 4. Critical accounting policies and estimates; controls and procedures

### 4.1. Critical accounting policies and estimates

The financial statements of the Bank are prepared in accordance with accounting principles and rules, the main points of which are described in Note 1 to the Annual Financial Statements as at December 31, 2018. In implementing the accounting principles, the Board of Management of the Bank uses various assumptions, estimates, and evaluations that affect the reported amounts of assets and liabilities (including contingent liabilities) and the results reported by the Bank. Actual future results may differ from such estimates and evaluations made when preparing the financial statements. Some of these estimates and evaluations involve a considerable degree of uncertainty, and can be affected by possible future changes. Such estimates and evaluations in which changes may have a material effect on the financial results presented in the financial statements are considered by the Bank to be estimates and evaluations on "critical" matters. The Bank's Board of Management is of the opinion that the estimates and evaluations applied during the preparation of the financial statements are fair, and were made to the best of its knowledge and professional judgment.

#### Allowance for credit losses

Pursuant to the directives of the Supervisor of Banks regarding the measurement and disclosure of impaired debts, credit risk, and allowance for credit losses, the Bank applies the American accounting standards on this subject (ASC 310) and the positions of the bank supervision agencies in the United States and of the Securities and Exchange Commission in the United States, as adopted in the Public Reporting Directives.

The allowance to cover estimated credit losses with respect to the credit portfolio is assessed by one of two methods: "individual allowance" and "collective allowance." The Bank also examines the overall appropriateness of the allowance for credit losses. For further details regarding the rules for examination of debts within the individual or collective allowance, and for details regarding the calculation of the allowance for credit losses in respect of housing loans, see Note 1E(4) to the Financial Statements concerning the allowance for credit losses.

The individual allowance for credit losses is made on the basis of the Board of Management's estimate of the losses inherent in the credit portfolio, including debts in off-balance sheet items. The Board of Management bases the evaluation process on numerous considerations and estimates.

Each quarter, a process is conducted to identify customers with problematic potential, based on defined criteria, and all borrowers on watch lists and/or classified as problematic are examined individually. An individual examination is performed with regard to these customers, encompassing the condition of the borrower's business, cash flows from the borrower's business, the value and expected realization date of existing collateral, the value and realization date of third-party guarantees, etc. The recoverable amount is assessed according to this examination, and a determination is made, accordingly, regarding the appropriate classification of the debt and the individual allowance for credit losses, which constitutes the difference between the amount of credit given to the borrower and the total amount that can be collected from the borrower, discounted by the original interest rate of the debt, or the net fair value of the collateral provided against the debt, at every reporting date.

In addition, the Bank is required to estimate the volume of debt that cannot be collected via prolonged collection efforts (defined in most cases as a period exceeding two years), and perform charge-offs in respect of such debt.

Some of the data that form the foundation for the individual examination are based on estimates and evaluations, and dependent upon economic variables that are not under the Bank's control, such as the condition of the Israeli economy and global markets, markets for companies' operations and products, interest rates, conditions in the capital market, prices of real estate and other assets, demand in the industry in Israel and worldwide, and more.

The recoverable amount is determined by applying safety margins aimed at addressing situations of uncertainty regarding the ability to repay the debt and the value of collateral. However, because economic and other variables are involved, there is no certainty that the amounts actually received will be identical to the estimates established.

In this context, note that the Bank applies the directive of the Bank of Israel regarding the primary source of repayment, pursuant to which the determination of the appropriate classification for a debt, until default occurs, or until the probability of expected default becomes high, is based on the expected strength of the primary source of repayment of the debt (a current cash-flow based, stable, separate source that is under the borrower's control), notwithstanding the support of secondary and tertiary sources of repayment.

Orderly work processes are used at the Bank to determine the fairness of classifications and allowances, and decisions are made according to approved authorizations.

The collective allowance for credit losses is calculated in order to reflect allowances for impairment in respect of credit losses not individually identified inherent in large groups of small debts with similar risk attributes, and in respect of debts examined individually and found to be unimpaired. The allowance for credit losses in respect of balance sheet and off-balance sheet credit risk evaluated on a collective basis is calculated based on historical charge-off rates, by economic sector, with a division between problematic and non-problematic credit, over the period beginning January 1, 2011 and ending at the reporting date. The Bank uses a charge-off rate constituting the average rate of past charge-offs in this range of years. In addition to the calculation of a range of historical charge-off rates in the various economic sectors, the Bank also considers relevant environmental factors in determining the rate of the allowance, including trends in the volume of credit and conditions in the sectors, macro-economic data, changes in volumes and trends of balances in arrears and impaired balances, and the effects of changes in credit concentration.

In this context, in accordance with the directives of the Supervisor concerning the collective allowance in respect of credit for the economic sector of private individuals, the Bank is required to take into consideration a qualitative adjustment rate of no less than 0.75% of the balance of unimpaired consumer credit. Credit risk arising from receivables in respect of bank credit cards without interest charges was excluded from this calculation.

The Bank has developed a model for the calculation of the collective allowance, taking qualitative adjustment coefficients into account, as required in the directives. The model adopted also includes many estimates related to factors that affect the adjustment coefficient set for each economic sector, above the average past charge-offs; these include trends in credit volumes, conditions in the sectors, macro-economic data, changes in the volume and trend of balances in arrears and impaired balances, effects of changes in credit concentration, and more.

As the volume and rate of the collective allowance are based, among other factors, on the classification of the debt as problematic, in itself, and on the timing of this classification, in determining the amount of the collective allowance the Bank relies on the same estimates regarding the financial stability and repayment capability of the borrower that are the basis for the classification of the debt as problematic and for the timing of the classification.

The Bank has established procedures for the classification of credit and measurement of the allowance for credit losses, in order to maintain an allowance at an appropriate level to cover estimated credit losses with respect to its credit portfolio. In addition, the Bank has established procedures in order to maintain an allowance at an appropriate level to cover estimated credit losses related to off-balance sheet credit instruments (such as contractual engagements to grant credit, unutilized credit facilities, and guarantees).

## Fair value measurements

Some of the financial instruments in which the Bank operates, including most of the securities in the available-for-sale portfolio, securities in the portfolio held for trading, and derivative financial instruments, are measured in the financial statements at fair value. The fair value of a financial instrument is defined as the price that would be obtained from the sale of an asset, or that would be paid to transfer a liability, in a routine transaction between participants in the market at the date of measurement, i.e. in a transaction that is not a forced sale or a sale in the course of liquidation. Maximum use is made of observable inputs in assessing fair value. Observable inputs represent information available in the market and received from independent sources. When no observable inputs are available for the measurement of fair value, unobservable inputs are used. These data reflect the assumptions of the Bank, and include models that take the risk inherent in the financial instrument into consideration (market risk, credit risk, etc.).

These types of inputs form the following fair-value hierarchy:

- Level 1 data: Prices quoted (unadjusted) in active markets for identical assets or liabilities.
- Level 2 data: Directly or indirectly observable inputs regarding an asset or liability other than quoted prices included in Level 1.
- Level 3 data: Unobservable inputs regarding an asset or liability.

The hierarchy requires the use of observable market inputs when such information is available. In the classification of the data used to measure fair value into the different levels of the fair-value hierarchy, the Bank classifies the overall fair-value measurement as the lowest level of an input significant for the overall measurement.

The Bank exercises appropriate professional judgment in establishing fair values. Towards that end, the Bank has formulated a plan for the definition of a structured, ordered process for the establishment of fair value. The process encompasses four independent functions:

- The business function – The party responsible for the management of the financial instrument.
- The validation function – The party responsible for validating the models for the fair-value calculation and validating the data and assumptions used in the calculation.
- The control function – The party responsible for applying routine controls to the process of establishing fair value.
- The supervision function – The party responsible for supervising the proper implementation of the process of establishing fair value.

The Bank has also established a limit according to which the Bank shall not enter into a new type of financial instrument in a material amount, or increase the amount of an existing type, if no structured procedure exists for establishing its fair value at a reasonable degree of confidence (hereinafter: "Exceptional Instruments"). It was further established that in cases in which the volume of the Exceptional Instruments reaches 75% of the limit that has been set, the Board of Directors and the Board of Management Committee on Risk Management shall be notified, and the committee shall formulate a plan to reduce the volume of the Exceptional Instruments.

The fair value of bonds traded overseas is based on price quotes from international price suppliers, which are independent of the issuing corporations and governments. These suppliers are leading international companies that provide quoting and revaluation services to leading financial institutions worldwide.

Following the implementation of ASC 820-10 (FAS 157), "Fair Value Measurements," the Bank is required to reflect credit risk and nonperformance risk in assessing the fair value of debt, including derivative instruments, measured at fair value. Nonperformance risk includes the credit risk of the Bank and of the counterparty to the transaction. As at December 31, 2018, the net allowance for credit risk of assets and liabilities in respect of derivative instruments is approximately NIS 142 million.

For further details, see Note 32 to the Financial Statements.

## Employee benefit liabilities

Some of the provisions for the Bank's liabilities in connection with employee-employer relationships are based on actuarial calculations, among other factors. These provisions include a liability for 25-year service grants to which employees are entitled when they have worked at the Bank for 25 years; liability for compensation in respect of unutilized sick days; post-retirement benefits; pension liabilities for payments to employees who retire before the legal retirement age; pension liabilities for payments to active employees expected to retire with preferred retirement terms, before the legal retirement age; and severance pay liabilities.

The liabilities, calculated based on actuarial estimates at the Bank as at December 31, 2018, amounted to a total of approximately NIS 4,268 million. The liabilities are discounted at a real factor of 1.89% per annum, based on the yield of government bonds in Israel, plus a margin equal to the difference between rates of yield to maturity, by maturity period, of corporate bonds rated AA or higher in the United States, and rates of yield to maturity for the same maturity periods of US government bonds, at the reporting date, as determined by the Banking Supervision Department.

Actuarial calculations are mainly based on assumptions and estimates, which are based on the evaluations and resolutions of the Board of Management, past experience, and various statistics, such as mortality tables, employee departure rates, the rate of real change in wages over time, etc. These estimates and assumptions are reviewed regularly.

Changes in the various actuarial parameters would lead to different results from those obtained today. For example, a 1% increase in the discount rate would cause a reduction of the liabilities by a total of approximately NIS 332 million, and a 1% decrease in the discount rate would cause these liabilities to grow by a total of approximately NIS 390 million. Further, an increase of 1% in the estimated rate of increase in annual wages would cause the aforesaid liabilities to increase by a total of approximately NIS 249 million. An increase of 1% in the annual estimate of rates of departure for early retirement would cause an increase of the liabilities by a total of approximately NIS 165 million, and a decrease of 1% in the annual estimated rate of departure for early retirement would cause the liabilities to decrease by a total of approximately NIS 161 million.

The actuary estimate for the period ended December 31, 2018, in respect of liabilities for employee benefits has been posted on the Magna website of the Israel Securities Authority, at www.magna.isa.gov.il.

## Contingent liabilities

The Bank Group is a party to judicial proceedings taken against it by customers, by former customers, and by various third parties who believe they have suffered harm or damages resulting from the Bank Group's activity. The Group is also under investigation by American government agencies, as described in Note 25 to the Financial Statements concerning the investigation of the Bank Group's business with American customers and FIFA.

The Bank's Board of Management has included sufficient provisions in the financial statements to cover the possible damages, based on legal opinions. In most of the judicial proceedings, and in connection with investigations by various government agencies, opinions are obtained from legal advisors external to the Bank Group, and reviewed by legal counsels employed by the Bank.

These evaluations are based on the best judgment of the legal advisors, taking into consideration the stage at which the proceedings are at present and the legal experience accumulated on these matters in Israel and worldwide.

Estimates regarding provisions for judicial proceedings, investigations, and regulatory matters involve judgment, at a very high level in comparison to other types of provisions. When such proceedings are in initial stages, the determination whether the Bank has any liability, the establishment of a range of estimates, and the determination of the probability that the Bank may incur costs as a result of such liability entail significant uncertainty; in the case of matters with respect to which no judicial proceeding is underway at the reporting date, the uncertainty increases further.

As the proceedings progress, the Board of Management of the Bank and its legal advisors evaluate, periodically, whether it is necessary to include or update provisions in respect of the proceedings, updating the estimate performed in the preceding reporting period. The ability to perform estimates increases as the proceedings advance, but the amount of the provision remains sensitive to changes in assumptions.

In most cases, there is a wide range of possible outcomes for legal proceedings, investigations, and regulatory proceedings.

In addition, it should be taken into account that no "certain" or "near certain" assessments can be made with regard to legal matters, not only in the initial stages of a claim or of other proceedings, but until the verdict is handed down or other proceedings are concluded. Accordingly, the outcome of such proceedings may differ, sometimes to a material extent, from the estimates established.

This is especially true in the case of class-action suits, due to factors including the limited legal experience regarding the outcome of such suits in Israel.

The Bank and its legal advisors therefore face greater difficulty than usual when estimating the outcome of legal proceedings involving class-action suits, most notably during the stage in which the court has not yet decided whether to accept or deny the petition to recognize the claim as a class action.

Therefore, taking the foregoing into consideration, and taking into consideration the material amounts stated in class-action suits and the significant uncertainty involved in the estimates, the resolution of such proceedings may, from time to time, have a material adverse effect on the results of the Bank Group in the quarterly or annual reporting period in which the proceedings are resolved.

This is all the more true in cases in which no judicial proceedings are underway at the reporting date in respect of a particular matter, but an investigation or other regulatory proceeding is being conducted, such as the investigations by the American authorities, as described in Note 25 to the Financial Statements.

In estimating the impacts of the aforesaid investigations, it is difficult to determine whether a loss is probable or possible, and to estimate the expected amount of the loss, or even to estimate a range of exposures, and all the more so to estimate the probability of materialization of any particular scenario within the range of exposures prepared in order to determine the amount of the provision in the financial statements. In proceedings where the process of investigating the facts and collecting data is prolonged, it is sometimes only in the advanced stages of the proceedings that it becomes possible to reliably estimate the expected loss or the range of possible exposures. A significant degree of judgment must be exercised in estimating the amount of the loss in such cases, and as the event unfolds, it is possible that the amount of the loss may be significantly higher than the amount of the provision accrued at the date of the financial statements.

Therefore, taking into consideration the significant uncertainty, the Bank estimates that the extent of the total exposure is larger than the amount of the provision included in the financial statements, such that the total amounts to be paid by the Bank Group within resolutions with the American authorities (if achieved) are likely to be significantly higher than the amount of the provision, and there may therefore be a significant negative effect on the results of the Bank Group in the quarterly or annual reporting period in which the uncertainty is dispelled.

### Impairment of securities available for sale and of securities held to maturity

Each reporting period, the Board of Management of the Bank determines whether decreases in the fair value of securities classified into the available-for-sale portfolio and the held-to-maturity portfolio are other than temporary. This examination includes several stages and principles, in accordance with the policy established at the Bank, primarily the following:

1. A determination whether the impairment is other than temporary, and the amount of the impairment:
   - Securities which, at the balance sheet date, the Bank does not intend to hold, or securities sold after the balance sheet date at less than cost, constitute securities in which other-than-temporary impairment has occurred.
   - Securities the value of which has decreased by more than 20% relative to their cost, with respect to capital instruments, or 15%, with respect to debt instruments, when the decline in value has persisted for more than six months, constitute securities in which other-than-temporary impairment has occurred, unless it can be demonstrated that special circumstances prevailed.
   - Securities the value of which has decreased by 40% or more of the cost of the security, with respect to capital instruments, or 30% with respect to debt instruments, at or after the balance sheet date, constitute securities in which other-than-temporary impairment has occurred, unless it can be demonstrated that special circumstances prevailed.
   - Debt instruments that have undergone a downgrade in rating to below Investment Grade constitute securities in which other-than-temporary impairment has occurred.
   - Debt instruments classified as problematic (impaired, substandard, or under special supervision) by the Bank after acquisition.
2. Preparation of a watch list – a quantitative and qualitative examination is performed to identify and evaluate securities whose value has decreased, where other-than-temporary impairment may have occurred.

3. Specific examination – all securities on the watch list are examined specifically. The examination is performed separately for debt instruments and capital instruments, and includes the following parameters, among others:
   - The Bank's ability and intention to hold the security for a sufficient period to allow the value of the security to return to the level of its cost.
   - The value of collateral and safety cushions backing the security.
   - The rating of the security by international and local rating agencies, including developments in these ratings after the balance sheet date.
   - The rate of impairment of the security relative to its total cost.
   - The amount of time for which the fair value of the security is lower than its cost.
   - The financial condition of the issuer and changes in its business environment, including an examination of whether the impairment reflects circumstances unique to the issuer or general market conditions.
   - Events after the balance sheet date.
4. Documentation of the results of the examination, as required pursuant to the rules established at the Bank.

When other-than-temporary impairment occurs in a security, the cost of the security is written down to its fair value at the balance sheet date and used as the new cost base. The amount of the write-down is charged to the statement of profit and loss.

Beginning January 1, 2019, in accordance with the directives of the Banking Supervision Department, the Bank adopted new standards concerning the presentation and measurement of financial instruments, which changed the accounting treatment of shares in the portfolio available for sale. In addition, beginning January 1, 2021, in accordance with the directives of the Banking Supervision Department, the Bank will adopt new standards concerning credit losses, which change the accounting treatment of allowances for credit losses and impairments in the portfolio of securities held to maturity and in the portfolio of securities available for sale. For further details, see Note 1F to the Financial Statements.

### 4.2. Controls and procedures

In accordance with the Public Reporting Directives of the Supervisor of Banks, the Chief Executive Officer, the Chief Financial Officer, and the Chief Accountant of the Bank must each separately sign a declaration regarding their responsibility for the establishment and application of controls and procedures concerning disclosure and the Bank's internal control over financial reporting, including an assessment of the effectiveness of these controls, pursuant to the directives of Sections 302 and 404 of the law known as the "Sarbanes-Oxley Act," enacted in the United States. The directives of these two sections of the law were consolidated by the Supervisor of Banks in a Proper Conduct of Banking Business Directive (Directive 309) in September 2008, and integrated into the Public Reporting Directives in June 2009.

The directive in Section 302 regarding the existence of controls and procedures concerning disclosure is implemented at the Bank on a quarterly basis. The directive in Section 404 regarding the Bank's internal control over financial reporting is implemented at the end of each year, as required in the directives.

As part of the implementation of the directives of Section 404, the Bank, with the assistance of a consulting firm, mapped and documented all material control processes, based on the directives of the SEC (the Securities and Exchange Commission in the United States), using the prevalent methodologies, based on criteria established in the updated Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In addition, in accordance with the requirements, the Bank carried out a test of the effectiveness of the procedures for internal control over financial reporting, through an examination of the effectiveness of the main controls in practice.

The Bank updated the documentation of the material control processes for 2018, as in every year, according to the prevalent methodologies, with the assistance of a consulting firm, and examined the effectiveness of the procedures for internal control over financial reporting, through a renewed examination of the main controls for the current year.

#### Evaluation of controls and procedures concerning disclosure

The Board of Management of the Bank, in cooperation with the Chief Executive Officer, the Chief Financial Officer, and the Chief Accountant of the Bank, has assessed the effectiveness of the controls and procedures concerning disclosure at the Bank as at December 31, 2018. Based on this assessment, they have concluded that, as at the end of this period, the controls and procedures concerning disclosure at the Bank are effective in order to record, process, summarize, and report the information that the Bank is required to disclose in its financial statement, in accordance with the Public Reporting Directives of the Supervisor of Banks, on the date stipulated in these directives.

#### Changes in internal control

During the quarter ended on December 31, 2018, no material change occurred in the internal control over financial reporting that had a material impact, or could reasonably be expected to have a material impact, on the internal control over financial reporting.

**Oded Eran**
Chairman of the Board of Directors

**Ari Pinto**
President and Chief Executive Officer

Tel-Aviv, March 17, 2019

## 5. Report of the Board of Directors and the Board of Management on internal control over financial reporting

The Board of Directors and the Board of Management of Bank Hapoalim B.M. (hereinafter: the "Bank") are responsible for the establishment and application of adequate internal control over financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"). The system of internal control at the Bank was designed to provide a reasonable degree of assurance to the Board of Directors and the Board of Management of the Bank with regard to the adequate preparation and presentation of financial reports published in accordance with generally accepted accounting principles and the directives and guidelines of the Supervisor of Banks. Regardless of the quality of planning of the internal control systems, any such system has inherent limitations. Thus, even if these systems are found to be effective, such systems can provide only a reasonable degree of assurance with regard to the preparation and presentation of the financial reports.

The Board of Management, under the supervision of the Board of Directors, maintains a comprehensive system of controls aimed at ensuring that transactions are executed in accordance with the Board of Management's authorizations, that assets are protected, and that accounting records are reliable. In addition, the Board of Management, under the supervision of the Board of Directors, applies measures to ensure that information and communication channels are effective and monitor performance, including the performance of internal control procedures.

The Board of Management of the Bank, under the supervision of the Board of Directors, assessed the effectiveness of the Bank's internal control over financial reporting as at December 31, 2018, based on the criteria established in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, the Board of Management believes that as at December 31, 2018, the Bank's internal control over financial reporting is effective.

The effectiveness of the Bank's internal control over financial reporting as at December 31, 2018 was audited by the Bank's external auditors, Ziv Haft Certified Public Accountants (Isr.) and Somekh Chaikin Certified Public Accountants (Isr.), as noted in their report on page 142. The auditors' report includes an unqualified opinion with regard to the effectiveness of the Bank's internal control over financial reporting as at December 31, 2018.

| **Oded Eran** | **Ari Pinto** | **Ofer Koren** | **Ofer Levy** |
|---|---|---|---|
| Chairman of the Board of Directors | President and Chief Executive Officer | Senior Deputy Managing Director, Chief Financial Officer | Senior Deputy Managing Director, Chief Accountant |

Tel-Aviv, March 17, 2019

## CEO Declaration

I, Ari Pinto, declare that:

1. I have reviewed the annual report of Bank Hapoalim B.M. (hereinafter: the "Bank") for the year 2018 (hereinafter: the "Report").
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included in the Report fairly reflect the financial condition, results of operations, changes in equity, and cash flows of the Bank, in all material aspects, for the dates and periods presented in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure and internal control over financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"); furthermore:
   A. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report;
   B. We have established such internal control over financial reporting, or caused such internal control over financial reporting to be established under our supervision, intended to provide a reasonable degree of assurance with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks;
   C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure in the Report, as at the end of the period covered in the Report, based on our assessment; and
   D. We have disclosed in the Report any change in the internal control over financial reporting at the Bank that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control over financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditors, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control over financial reporting:
   A. Any significant deficiencies or material weaknesses in the establishment or application of internal control over financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, and report financial information; and
   B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have a significant role in the internal control over financial reporting at the Bank.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

**Ari Pinto**
President and Chief Executive Officer

Tel-Aviv, March 17, 2019

## CFO Declaration

I, Ofer Koren, declare that:

1. I have reviewed the annual report of Bank Hapoalim B.M. (hereinafter: the "Bank") for the year 2018 (hereinafter: the "Report").
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included in the Report fairly reflect the financial condition, results of operations, changes in equity, and cash flows of the Bank, in all material aspects, for the dates and periods presented in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure and internal control over financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"); furthermore:
   A. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report;
   B. We have established such internal control over financial reporting, or caused such internal control over financial reporting to be established under our supervision, intended to provide a reasonable degree of assurance with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks;
   C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure in the Report, as at the end of the period covered in the Report, based on our assessment; and
   D. We have disclosed in the Report any change in the internal control over financial reporting at the Bank that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control over financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditors, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control over financial reporting:
   A. Any significant deficiencies or material weaknesses in the establishment or application of internal control over financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, and report financial information; and
   B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have a significant role in the internal control over financial reporting at the Bank.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

**Ofer Koren**
Senior Deputy Managing Director,
Chief Financial Officer

Tel-Aviv, March 17, 2019

## Chief Accountant Declaration

I, Ofer Levy, declare that:

1. I have reviewed the annual report of Bank Hapoalim B.M. (hereinafter: the "Bank") for the year 2018 (hereinafter: the "Report").
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included in the Report fairly reflect the financial condition, results of operations, changes in equity, and cash flows of the Bank, in all material aspects, for the dates and periods presented in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure and internal control over financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"); furthermore:
   A. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report;
   B. We have established such internal control over financial reporting, or caused such internal control over financial reporting to be established under our supervision, intended to provide a reasonable degree of assurance with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks;
   C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure in the Report, as at the end of the period covered in the Report, based on our assessment; and
   D. We have disclosed in the Report any change in the internal control over financial reporting at the Bank that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control over financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditors, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control over financial reporting:
   A. Any significant deficiencies or material weaknesses in the establishment or application of internal control over financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, and report financial information; and
   B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have a significant role in the internal control over financial reporting at the Bank.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

**Ofer Levy**
Senior Deputy Managing Director,
Chief Accountant

Tel-Aviv, March 17, 2019

# Bank Hapoalim

Financial Statements

2018

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**Auditors' Report to the Shareholders of Bank Hapoalim B.M. according to Public Reporting Directives of the Supervisor of Banks regarding Internal Control over Financial Reporting**

We have audited the internal control over financial reporting of Bank Hapoalim B.M. and its subsidiaries (hereinafter together – "the Bank") as at December 31, 2018, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Bank's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Directors' and Management's reports on internal control over financial reporting. Our responsibility is to express an opinion on the Bank's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) in the United States, regarding audit of internal control over financial reporting as adopted by the Institute of Certified Public Accountants in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material aspects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A bank's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and in accordance with directives and guidelines of the Supervisor of Banks. The internal control over financial reporting of a bank includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and transfers of the assets of the bank (including their removal from its possession); (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statement in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and in accordance with directives and guidelines of the Supervisor of Banks, and that receipts and expenditures of the bank are being made only in accordance with authorizations of management and directors of the bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition (including removal from its possession) of the bank's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatement. Also, future conclusions based on any current effectiveness assessment are exposed to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Bank maintained, in all material aspects, effective internal control over financial reporting as at December 31, 2018, based on criteria established in Internal Control – Integrated Framework issued by the COSO.

We also have audited, in accordance with accepted auditing standards in Israel, and certain auditing standards applied in the audit of banking corporations as determined by directives and guidelines of the Supervisor of Banks, the consolidated financial statements of the Bank as at December 31, 2018 and 2017 and for each of the three-year period ended December 31, 2018, and our report dated March 17, 2019, expressed an unqualified opinion on the said financial statements as well as drew attention to the exposure to class actions that were filed against the Bank Group, an investigation of the Bank Group's business with American customers and an investigation with respect to FIFA.

**Somekh Chaikin**
Certified Public Accountants (Isr)

**Ziv Haft**
Certified Public Accountants (Isr)

Tel Aviv, March 17, 2019

**Auditors' Report to the Shareholders of Bank Hapoalim B.M.**

We have audited the accompanying consolidated balance sheets of Bank Hapoalim B.M. (hereinafter: "the Bank") as at December 31, 2018 and 2017 and the consolidated statements of profit and loss, statements of comprehensive income, statements of changes in equity and statements of cash flows, for each of the three years in the period ended December 31, 2018. These financial statements are the responsibility of the Bank's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Auditor's Mode of Performance), 1973 and certain auditing standards whose application in the audit of banking corporations was prescribed in directives and guidelines of the Supervisor of Banks. According to those standards it is required from us to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and Management of the Bank, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material aspects, the financial position of the Bank and its subsidiaries as at December 31, 2018 and 2017 and the results of operations, changes in equity and cash flows of the Bank and its subsidiaries for each of the three years in the period ended December 31, 2018, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). Furthermore, in our opinion, these financial statements are prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our opinion above, we draw attention to that mentioned in Note 25C(b) regarding exposures to class actions that were filed against the Bank Group, to Note 25D regarding the investigation of the business of the Bank Group with American customers and to Note 25E regarding the investigation with respect to FIFA.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) in the United States, regarding audit of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the Bank's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report , dated March 17, 2019 expressed an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting.

**Somekh Chaikin**
Certified Public Accountants (Isr)

**Ziv Haft**
Certified Public Accountants (Isr)

Tel-Aviv, March 17, 2019

## Consolidated Statement of Profit and Loss[1]

for the year ended December 31, 2018

NIS millions

| | Note | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Interest income | 2 | **11,672** | 10,613 | 9,962 |
| Interest expenses | 2 | **(2,766)** | (2,189) | (2,004) |
| Net interest income | | **8,906** | 8,424 | 7,958 |
| Provision for credit losses | 29(A)(1) | **613** | 202 | 179 |
| Net interest income after provision for credit losses | | **8,293** | 8,222 | 7,779 |
| **Non-interest income** | | | | |
| Non-interest financing income | 3 | **1,445** | 652 | 1,163 |
| Fees | 4 | **3,318** | *3,338 | *3,617 |
| Other income | 5 | **105** | 163 | 137 |
| Total non-interest income | | **4,868** | *4,153 | *4,917 |
| **Operating and other expenses** | | | | |
| Salaries and related expenses | 6 | **4,097** | **4,209 | **4,239 |
| Maintenance and depreciation of buildings and equipment | | **1,376** | 1,350 | 1,404 |
| Other expenses | 7 | **3,487** | **,*2,562 | **,*2,499 |
| Total operating and other expenses | | **8,960** | *8,121 | *8,142 |
| Profit from continued operations before taxes | | **4,201** | 4,254 | 4,554 |
| Provision for taxes on profit from continued operations | 8 | **2,009** | 1,959 | 2,229 |
| Profit from continued operations after taxes | | **2,192** | 2,295 | 2,325 |
| The Bank's share in profits of equity-basis investees, after taxes | 15(B) | **4** | 17 | 12 |
| Net profit from continued operations | | **2,196** | 2,312 | 2,337 |
| Net profit from a discontinued operation | 1G | **364** | 314 | 274 |
| **Net profit** | | | | |
| Before attribution to non-controlling interests | | **2,560** | 2,626 | 2,611 |
| Loss attributed to non-controlling interests | | **35** | 34 | 17 |
| Attributed to shareholders of the Bank | | **2,595** | 2,660 | 2,628 |
| **Earnings per ordinary share in NIS** | 9 | | | |
| **Basic earnings** | | | | |
| Net profit attributed to shareholders of the Bank | | **1.95** | 2.00 | 1.98 |
| Net profit attributed to shareholders of the Bank from continued operations | | **1.68** | 1.76 | 1.77 |
| **Diluted earnings** | | | | |
| Net profit attributed to shareholders of the Bank | | **1.94** | 1.99 | 1.97 |
| Net profit attributed to shareholders of the Bank from continued operations | | **1.67** | 1.75 | 1.76 |

* Reclassified. Expenses in respect of insurance for Sale Law guarantees are stated as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item.

** Pursuant to the directives of the Bank of Israel, certain actuarial cost components of employee benefits were reclassified from salary expenses to other expenses. For further details, see Note 1D(3).

(1) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations, including restatement of comparative figures. For details, see Note 1G.

The accompanying notes are an integral part of the financial statements.

| **Oded Eran** | **Ari Pinto** | **Ofer Koren** | **Ofer Levy** |
|---|---|---|---|
| Chairman of the Board of Directors | President and Chief Executive Officer | Senior Deputy Managing Director, Chief Financial Officer | Senior Deputy Managing Director, Chief Accountant |

Tel Aviv, March 17, 2019

## Consolidated Statement of Comprehensive Income[1]

for the year ended December 31, 2018

NIS millions

| | Note | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Net profit before attribution to non-controlling interests | | **2,560** | 2,626 | 2,611 |
| Net loss attributed to non-controlling interests | | **35** | 34 | 17 |
| Net profit attributed to shareholders of the Bank | | **2,595** | 2,660 | 2,628 |
| Other comprehensive income (loss) before taxes: | 10 | | | |
| Net adjustments for presentation of securities available for sale at fair value | | **(920)** | 212 | (160) |
| Net adjustments from translation of financial statements*, after hedge effects** | | **(2)** | 4 | (2) |
| Adjustments of liabilities in respect of employee benefits*** | | **379** | (122) | (1,221) |
| Net gains in respect of cash-flow hedges | | **-** | 1 | 4 |
| Other comprehensive income (loss) before taxes | | **(543)** | 95 | (1,379) |
| Effect of related tax | | **135** | (39) | 439 |
| Other comprehensive income (loss) before attribution to non-controlling interests, after taxes | | **(408)** | 56 | (940) |
| Net of other comprehensive income attributed to non-controlling interests | | **-** | (2) | (1) |
| Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes | | **(408)** | 54 | (941) |
| Comprehensive income before attribution to non-controlling interests | | **2,152** | 2,682 | 1,671 |
| Comprehensive loss attributed to non-controlling interests | | **35** | 32 | 16 |
| Comprehensive income attributed to shareholders of the Bank | | **2,187** | 2,714 | 1,687 |

* Adjustments from the translation of financial statements of a foreign operation whose functional currency differs from the functional currency of the Bank.

** Hedges – net gains (losses) in respect of net hedges of investments in foreign currency.

*** Mainly reflects adjustments in respect of actuarial estimates at the end of the year, and deduction of amounts previously recorded in other comprehensive income.

(1) Includes balances attributed to a discontinued operation. For details, see Note 1G.

The accompanying notes are an integral part of the financial statements.

## Consolidated Balance Sheet[1]
as at December 31, 2018

NIS millions

| | Note | December 31 2018 | 2017 |
|---|---|---|---|
| **Assets** | | | |
| Cash and deposits with banks | 11 | **84,459** | 86,093 |
| Securities[2][3] | 12, 26 | **56,116** | 65,416 |
| Securities borrowed or purchased under agreements to resell | | **708** | 684 |
| Credit to the public | | **286,265** | 269,505 |
| Allowance for credit losses | | **(3,758)** | (3,652) |
| Net credit to the public | 29 | **282,507** | 265,853 |
| Credit to governments | 14 | **2,428** | 2,292 |
| Investments in equity-basis investees | 15 | **103** | 198 |
| Buildings and equipment | 16 | **3,111** | 3,123 |
| Assets in respect of derivative instruments | 27 | **10,534** | 12,013 |
| Other assets[2] | 17 | **5,850** | 5,323 |
| Assets attributed to a discontinued operation | 1G | **15,110** | 13,429 |
| Total assets | | **460,926** | 454,424 |
| | | | |
| **Liabilities and capital** | | | |
| Deposits from the public | 18 | **352,260** | 347,344 |
| Deposits from banks | 19 | **4,528** | 3,649 |
| Deposits from the government | | **208** | 320 |
| Securities lent or sold under agreements to repurchase | | **-** | 367 |
| Bonds and subordinated notes | 20 | **30,024** | 29,058 |
| Liabilities in respect of derivative instruments | 27 | **9,676** | 12,049 |
| Other liabilities (of which: 567; 608, respectively, allowance for credit losses in respect of off-balance sheet credit instruments)[2] | 21 | **11,841** | 11,199 |
| Liabilities attributed to a discontinued operation | 1G | **14,733** | 14,434 |
| Total liabilities | | **423,270** | 418,420 |
| | | | |
| Shareholders' equity | 24 | **37,544** | 35,863 |
| Non-controlling interests | | **112** | 141 |
| Total capital | | **37,656** | 36,004 |
| Total liabilities and capital | | **460,926** | 454,424 |

(1) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations, including restatement of comparative figures. For details, see Note 1G.
(2) With regard to amounts measured at fair value, see Note 32B.
(3) For details regarding securities pledged to lenders, see Note 26.

The accompanying notes are an integral part of the financial statements.

## Statement of Changes in Equity[1]
for the year ended December 31, 2018

NIS millions

| | Share capital and premium | Capital reserves from benefit due to share-based payment transactions | Total capital and capital reserves | Accumulated other comprehensive income | Retained earnings | Total shareholders' equity | Non-controlling interests | Total capital |
|---|---|---|---|---|---|---|---|---|
| Balance as at January 1, 2016 | 8,094 | 113 | 8,207 | 101 | 24,724 | 33,032 | 187 | 33,219 |
| Net profit (loss) for the year | - | - | - | - | 2,628 | 2,628 | (12) | 2,616 |
| Dividend | - | - | - | - | (685) | (685) | - | (685) |
| Buyback of shares | (27) | - | (27) | - | - | (27) | - | (27) |
| Adjustments and changes arising from: | | | | | | | | |
| Benefit due to share-based payment transactions | - | 35 | 35 | - | - | 35 | - | 35 |
| Exercise of equity compensation into shares | 79 | (74) | 5 | - | - | 5 | - | 5 |
| Net other comprehensive income (loss) after tax effect | - | - | - | (941) | - | (941) | 1 | (940) |
| Increase in non-controlling interests | - | - | - | - | - | - | 2 | 2 |
| Balance as at January 1, 2017 | 8,146 | 74 | 8,220 | (840) | 26,667 | 34,047 | 178 | 34,225 |
| Net profit (loss) for the year | - | - | - | - | 2,660 | 2,660 | (29) | 2,631 |
| Dividend | - | - | - | - | (861) | (861) | - | (861) |
| Buyback of shares | (39) | - | (39) | - | - | (39) | - | (39) |
| Adjustments and changes arising from: | | | | | | | | |
| Benefit due to share-based payment transactions | - | 2 | 2 | - | - | 2 | - | 2 |
| Exercise of equity compensation into shares | 17 | (17) | - | - | - | - | - | - |
| Net other comprehensive income after tax effect | - | - | - | 54 | - | 54 | 2 | 56 |
| Increase in non-controlling interests | - | - | - | - | - | - | 2 | 2 |
| Dividend for non-controlling interests in a consolidated company | - | - | - | - | - | - | (12) | (12) |
| Balance as at December 31, 2017 | 8,124 | 59 | 8,183 | (786) | 28,466 | 35,863 | 141 | 36,004 |

(1) Includes balances attributed to a discontinued operation. For details, see Note 1G.

The accompanying notes are an integral part of the financial statements.

## Statement of Changes in Equity[1]

for the year ended December 31, 2018 (continued)

NIS millions

| | Share capital and premium* | Capital reserves from benefit due to share-based payment transactions | Total capital and capital reserves | Accumulated other comprehensive income | Retained earnings | Total shareholders' equity | Non-controlling interests | Total capital |
|---|---|---|---|---|---|---|---|---|
| Balance as at January 1, 2018 | **8,124** | **59** | **8,183** | **(786)** | **28,466** | **35,863** | **141** | **36,004** |
| Net profit (loss) for the year | **-** | **-** | **-** | **-** | **2,595** | **2,595** | **(29)** | **2,566** |
| Dividend | **-** | **-** | **-** | **-** | **(496)** | **(496)** | **-** | **(496)** |
| Buyback of shares | **(24)** | **-** | **(24)** | **-** | **-** | **(24)** | **-** | **(24)** |
| Adjustments and changes arising from: | | | | | | | | |
| Benefit due to share-based payment transactions | **-** | **14** | **14** | **-** | **-** | **14** | **-** | **14** |
| Exercise of equity compensation into shares | **35** | **(35)** | **-** | **-** | **-** | **-** | **-** | **-** |
| Net other comprehensive loss after tax effect | **-** | **-** | **-** | **(408)** | **-** | **(408)** | **-** | **(408)** |
| Balance as at December 31, 2018 | **8,135** | **38** | **8,173** | **(1,194)** | **30,565** | **37,544** | **112** | **37,656** |

* Excluding a balance of 3,673,637 treasury shares (December 31, 2017: excluding a balance of 4,311,952 treasury shares; December 31, 2016: excluding a balance of 3,826,498 treasury shares).

(1) Includes balances attributed to a discontinued operation. For details, see Note 1G.

The accompanying notes are an integral part of the financial statements.

## Consolidated Statement of Cash Flows[1]

for the year ended December 31, 2018

NIS millions

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| **Cash flows from (for) operating activity** | | | |
| Net profit for the period | **2,566** | 2,631 | 2,616 |
| **Adjustments necessary to present cash flows from operating activity** | | | |
| The Bank's share in profits of equity-basis investees | **(4)** | (17) | (12) |
| Depreciation of buildings and equipment | **590** | 602 | 651 |
| Amortizations | **19** | 21 | 24 |
| Provision for credit losses | **765** | 323 | 269 |
| Gain from realization of securities available for sale and held to maturity | **(531)** | (255) | (496) |
| Realized and unrealized loss (gain) from adjustments to fair value of securities held for trading | **(25)** | (24) | 2 |
| Gain from realization of buildings and equipment | **(28)** | (51) | (12) |
| Change in benefit due to share-based payment transactions | **(40)** | (2) | 101 |
| Net change in liabilities in respect of employee benefits | **(98)** | (65) | (154) |
| Deferred taxes, net | **(21)** | 22 | 284 |
| Gain from sale of credit portfolios | **(56)** | (4) | (93) |
| Dividends received from equity-basis investees | **22** | 10 | 5 |
| Adjustments in respect of exchange-rate differences | **(409)** | 1,930 | 322 |
| Accumulation differentials included in investing and financing activities | **(2,247)** | 968 | (860) |
| **Net change in current assets** | | | |
| Assets in respect of derivative instruments | **1,481** | (103) | 874 |
| Securities held for trading | **(1,142)** | 3,375 | (2,098) |
| Other assets | **(371)** | 211 | 440 |
| **Net change in current liabilities** | | | |
| Liabilities in respect of derivative instruments | **(2,426)** | (468) | (1,146) |
| Other liabilities | **1,180** | 1,188 | (294) |
| Net cash from (for) operating activity | **(775)** | 10,292 | 423 |

(1) Includes balances attributed to a discontinued operation. For details, see Note 1G.

The accompanying notes are an integral part of the financial statements.

## Consolidated Statement of Cash Flows[1]

for the year ended December 31, 2018 (continued)

NIS millions

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| **Cash flows for investing activity** | | | |
| Deposits with banks | **1,018** | (1,248) | (213) |
| Credit to the public | **(7,487)** | 1,677 | 9,369 |
| Credit to governments | **(136)** | 267 | (3) |
| Securities borrowed or purchased under agreements to resell | **(24)** | (309) | (256) |
| Acquisition of bonds held to maturity | **-** | (130) | (7) |
| Proceeds from redemption of bonds held to maturity | **35** | 131 | 21 |
| Acquisition of securities available for sale | **(34,725)** | (38,829) | (36,710) |
| Proceeds from sale of securities available for sale | **36,622** | 12,559 | 14,745 |
| Proceeds from redemption of securities available for sale | **10,515** | 27,795 | 15,827 |
| Acquisition of credit portfolios | **(11,768)** | (9,110) | (7,486) |
| Proceeds from sale of credit portfolios | **382** | 190 | 4,331 |
| Investment in equity-basis investees | **(5)** | (3) | (3) |
| Acquisition of buildings and equipment | **(683)** | (662) | (619) |
| Proceeds from realization of buildings and equipment | **47** | 80 | 19 |
| Net cash for investing activity | **(6,209)** | (7,592) | (985) |

(1) Includes balances attributed to a discontinued operation. For details, see Note 1G.

The accompanying notes are an integral part of the financial statements.

## Consolidated Statement of Cash Flows[1]

for the year ended December 31, 2018 (continued)

NIS millions

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| **Cash flows from (for) financing activity** | | | |
| Deposits from banks | **1,003** | (174) | (380) |
| Deposits from the public | **4,761** | 9,367 | 17,268 |
| Deposits from the government | **(112)** | (25) | (9) |
| Securities lent or sold under agreements to repurchase | **(380)** | (89) | 414 |
| Issuance of bonds and subordinated notes | **6,359** | 316 | 3,160 |
| Redemption of bonds and subordinated notes | **(5,390)** | (4,399) | (3,401) |
| Issuance of shares and options | **-** | - | 5 |
| Dividend paid to shareholders of the Bank | **(496)** | (861) | (685) |
| Buyback of shares | **(24)** | (39) | (27) |
| Dividend paid to minority interests in consolidated companies | **-** | (12) | - |
| Net cash from financing activity | **5,721** | 4,084 | 16,345 |
| Increase (decrease) in cash – includes balances of cash and cash equivalents attributed to a discontinued operation | **(1,263)** | 6,784 | 15,783 |
| Net of the increase (decrease) in cash and cash equivalents attributed to a discontinued operation | **1** | 10 | (1) |
| Increase (decrease) in cash | **(1,264)** | 6,774 | 15,784 |
| Balance of cash from continued operations at beginning of year | **82,856** | 78,317 | 63,096 |
| Effect of changes in exchange rates on cash balances | **625** | (2,235) | (563) |
| Balance of cash from continued operations at end of year | **82,217** | 82,856 | 78,317 |

| | | | |
|---|---|---|---|
| **Interest and taxes paid and/or received** | | | |
| Interest received | **11,747** | 11,391 | 12,798 |
| Interest paid | **(2,466)** | (2,525) | (2,761) |
| Dividends received | **49** | 42 | 44 |
| Income tax paid | **(2,615)** | (1,533) | (2,049) |
| Income tax received | **232** | 178 | 21 |

(1) Includes balances attributed to a discontinued operation. For details, see Note 1G.

The accompanying notes are an integral part of the financial statements.

# Note 1 Significant Accounting Policies

## A. General information

Bank Hapoalim B.M. (hereinafter: the "Bank") is a corporation incorporated in Israel.

The Bank has received approval from the Banking Supervision Department to publish the annual financial statements on a consolidated basis only. Note 34 presents the condensed stand-alone financial statements of the Bank, including the balance sheet, statement of profit and loss, and statement of cash flows.

The financial statements were approved for publication by the Board of Directors of the Bank on March 17, 2019.

## B. Definitions

In these financial statements:

GAAP for US banks – Accounting principles that American banks traded in the United States are required to implement, in accordance with the hierarchy established in Accounting Standards Codification (ASC) Topic 105-10 (FAS 168) of the Financial Accounting Standards Board and in accordance with the guidelines and position statements of the Securities and Exchange Commission and of the banking supervision agencies in the United States.

International Financial Reporting Standards (IFRS) – Standards and interpretations adopted by the International Accounting Standards Board (IASB).

Consolidated companies/subsidiaries – Companies whose financial statements are consolidated in full, directly or indirectly, with the financial statements of the Bank.

Equity-basis investees – Companies measured using the equity method.

Affiliates – Consolidated companies and equity-basis investees of the Group.

Overseas offices – Representative offices, agencies, branches, or subsidiaries of the Bank outside Israel.

The Group – The Bank and its consolidated companies.

Functional currency – The currency of the principal economic environment of the Bank's operations.

CPI – The consumer price index as published by the Central Bureau of Statistics in Israel.

Related parties and interested parties – As defined in Section 80 of the Public Reporting Directives.

Recorded debt balance – The balance of a debt, after deducting charge-offs, but before deducting the allowance for credit losses in respect of the debt.

Fair value – The price that would have been obtained from the sale of an asset or that would have been paid to transfer a liability in an ordinary transaction between market participants at the date of the measurement.

## C. Basis for preparation of the financial statements

### 1. Reporting principles

The consolidated financial statements of the Bank are prepared in accordance with the Public Reporting Directives and guidelines of the Banking Supervision Department. On most matters, these directives are based on generally accepted accounting principles in the United States. On the remaining matters, which are less material, the directives are based on International Financial Reporting Standards (IFRS) and on Israeli GAAP. When the IFRS allow several alternatives, or do not specifically address a particular situation, specific implementation guidelines have been established in the directives, mainly based on GAAP for US banks.

## Note 1 Significant Accounting Policies (continued)

**2. Functional currency and presentation currency**

The New Israeli Shekel (NIS) is the currency representing the primary economic environment in which the Bank operates, and therefore constitutes the functional currency of the Bank. The financial statements are presented in NIS and rounded to the nearest million, unless otherwise noted.

**3. Use of estimates**

The preparation of the financial statements in conformity with the directives and guidelines of the Banking Supervision Department requires the Board of Management of the Bank to exercise judgment and to use estimates, evaluations, and assumptions that affect the application of policies and the amounts of assets, liabilities, income, and expenses. It is hereby clarified that actual results may differ from such estimates.

In formulating the accounting estimates used in the preparation of the financial statements of the Bank, the Board of Management of the Bank is required to make assumptions with regard to circumstances and events that involve significant uncertainty. The Board of Management of the Bank bases its judgment in establishing these estimates on past experience, various facts, external factors, and reasonable assumptions, according to the circumstances, as appropriate for each estimate. The estimates and the underlying assumptions are reviewed routinely. Changes in accounting estimates are recognized in the period in which the estimates are amended and in every affected future period.

### D. First-time implementation of accounting standards, updates of accounting standards, and directives of the Banking Supervision Department

As of January 1, 2018, the Bank has implemented new accounting directives and standards on the following subjects:

(1) Recognition of revenue from contracts with customers.

(2) Reporting according to US GAAP on the following subjects: non-current assets held for sale and discontinued operations; fixed assets and investment property; earnings per share; statement of cash flows; interim reporting; capitalization of interest; and guarantees.

(3) Update concerning improved presentation of expenses in respect of pensions and other post-retirement benefits – ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost."

Set out below is a description of the essence of the changes in accounting policies applied in these consolidated financial statements, and a description of the manner and effect of the initial implementation, if any.

**1. Recognition of revenue from contracts with customers**

A circular concerning the adoption of an update of GAAP regarding revenue from contracts with customers was issued on January 11, 2015. The circular updates the Public Reporting Directives, in light of the publication of ASU 2014-09, which adopts a new standard on revenue recognition in US GAAP. The standard states that revenue shall be recognized in the amount expected to be received in consideration for the transfer of goods or provision of services to a customer. Banks are required to implement the amendments to the Public Reporting Directives beginning January 1, 2018.

## Note 1 Significant Accounting Policies (continued)

Among other matters, the new standard does not apply to financial instruments and to contractual rights or liabilities covered by ASC 310. In addition, the directives of the Bank of Israel have clarified that in general, the directives of the new standards will not apply to the accounting treatment of interest income and expenses, or of non-interest financing income. With regard to income to which the new standard applies, primarily income from fees, no material change has occurred in the timing or measurement of such income. The Bank has chosen to implement the standard prospectively. In light of the foregoing, the effect of the adoption of the aforesaid directives on the financial statements is immaterial.

**2. Reporting according to US GAAP on the following subjects: non-current assets held for sale and discontinued operations; fixed assets and investment property; earnings per share; statement of cash flows; interim reporting; capitalization of interest; and guarantees**

A circular concerning reporting by banking corporations and credit-card companies in Israel according to US GAAP was issued on October 13, 2016. The circular updates the Public Reporting Directives and adopts US GAAP on the following subjects:

- GAAP for US banks in ASC 205-20, Discontinued Operations;
- GAAP for US banks in ASC 360, Property, Plant, and Equipment;
- GAAP for US banks in ASC 260, Earnings Per Share;
- GAAP for US banks in ASC 230-10, Statement of Cash Flows;
- GAAP for US banks in ASC 270, Interim Reporting;
- GAAP for US banks in ASC 835-20, Capitalization of Interest;
- GAAP for US banks in ASC 460, Guarantees.

The directives established according to the circular apply from January 1, 2018, prospectively. Initial implementation is to be performed in accordance with the transitional directives established in the United States, with the necessary changes.

The implementation of these directives had no material effect on the financial statements. The reporting format for the statement of cash flows, including comparative figures for previous periods, was adjusted to the required reporting format.

**3. Update concerning improved presentation of expenses in respect of pensions and other post-retirement benefits – ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost"**

The Banking Supervision Department issued a circular on January 1, 2018, concerning ASU 2017-07.

The update clarifies that benefit cost components included in salary expenses in the statement of profit and loss should be separated, such that only the service cost component remains in salary expenses, while other cost components should be presented in non-operating expenses (other expenses). It was further clarified that only the service cost component is eligible for capitalization, in cases where salary expense capitalization is possible, and that other benefit cost components are not eligible for capitalization.

Implementation of the directives established according to the circular is required from January 1, 2018, forward. Initial implementation is to be performed in accordance with the transitional directives established in the United States, with the necessary changes.

## Note 1 Significant Accounting Policies (continued)

The implementation of the directives had no effect on the financial statements, other than on the manner of presentation and disclosure. The effect of the reclassification from the item "salaries and related expenses" to the item "other expenses," for the year ended December 31, 2017, and for the year ended December 31, 2016, is NIS 288 million and NIS 212 million, respectively.

### E. Accounting policies implemented in the preparation of the financial statements

#### 1. Foreign currency and linkage

**Transactions in foreign currency**

Transactions in foreign currency are translated according to the exchange rate in effect at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency at the reporting date are translated according to the exchange rate in effect at that date.

Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated into the functional currency according to the exchange rate in effect on the date on which the fair value is determined. Non-monetary items denominated in foreign currency and measured at historical cost are translated according to the exchange rate in effect on the date of the transaction. Exchange-rate differences arising from translation of transactions in foreign currency are recognized in profit and loss, with the exception of differences arising from the translation of non-monetary equity financial instruments classified as available for sale, or hedges of cash flows, which are recognized in other comprehensive income.

In this context, note that according to the US standard applied at the Bank, exchange-rate differences in respect of bonds available for sale are classified into capital reserve. However, the Banking Supervision Department has instructed banks in Israel to continue, until January 1, 2021, to treat exchange-rate differences in respect of bonds available for sale according to international standards, where these exchange-rate differences are classified into the statement of profit and loss.

**Overseas banking branches/subsidiaries**

In accordance with the criteria established by the Banking Supervision Department, in determining the functional currency of overseas banking branches/subsidiaries, the Bank is required to examine compliance/non-compliance with each of the following criteria:

- The primary environment in which the branch/subsidiary generates and expends cash is foreign currency, whereas the branch/subsidiary's activity in NIS is marginal;
- Autonomous recruitment of customers by the branch/subsidiary – the activity of the branch/subsidiary with customers of the Bank and/or closely affiliated parties thereof and/or parties referred to the branch/subsidiary by the Bank is not significant;
- The activity of the branch/subsidiary with the Bank and/or with its related parties is not significant. In addition, the branch/subsidiary is not significantly dependent upon financing sources from the Bank and/or its related parties;
- The activity of the branch/subsidiary is independent in essence and stands in its own right, and is not an extension or supplement to the local activity of the Group. In addition, the branch/subsidiary conducts its activities with a significant degree of autonomy.

## Note 1 Significant Accounting Policies (continued)

Clear non-compliance with one of the aforesaid criteria is an indication that the branch/subsidiary should be treated as a foreign operation whose functional currency is the NIS. In other situations, the determination shall be made based on an examination of the criteria in aggregate. In accordance with these criteria, the Bank classified its overseas branches/subsidiaries as foreign operations whose functional currency is the NIS, with the exception of Bank Hapoalim Switzerland, which was classified until December 31, 2018, as a foreign operation whose functional currency is the Swiss franc.

### Foreign operation with a functional currency other than the NIS

Assets and liabilities of foreign operations are translated into NIS at the exchange rates in effect at the reporting date. Income and expenses of foreign operations are translated into NIS at the average monthly exchange rate according to the date of execution of the transactions.

Exchange-rate differences in respect of translation were recognized in other comprehensive income and presented in equity under "translation adjustments."

Upon the realization of a foreign operation leading to a loss of control, the amount accumulated in the translation reserve arising from the foreign operation is reclassified to profit and loss, as part of the profit or loss from the realization.

In light of the decision of the Board of Directors of the Bank to act to discontinue the private-banking activity of Bank Hapoalim Switzerland, and in light of the sale of most of the global private banking customer asset portfolio of Bank Hapoalim Switzerland, the nature of the activity of Bank Hapoalim Switzerland changed, and it can no longer be said that its activity is independent and stands in its own right, or that there is no significant dependence of the office on financing sources from the Bank. Accordingly, beginning December 31, 2018, the Bank classifies Bank Hapoalim Switzerland as a foreign operation whose functional currency is the NIS.

### Hedge of net investment in a foreign operation

The Bank applied hedge accounting to exchange-rate differences between the functional currency of Bank Hapoalim Switzerland and the functional currency of the Bank (NIS).

Exchange-rate differences in respect of the effective part of the hedge resulting from the translation of the financial liability hedging the net investment in Bank Hapoalim Switzerland were allocated to other comprehensive income and presented in equity under "translation adjustments." The ineffective part of the hedge was allocated to profit and loss. In light of the change in the functional currency of Bank Hapoalim Switzerland, the accounting hedge was not renewed as of December 31, 2018. The balance of the net negative capital reserve at the date of the change, in the amount of approximately NIS 35 million, was locked in, and will be reclassified to profit and loss upon realization of the foreign operation resulting in a loss of control or liquidation.

## Note 1 Significant Accounting Policies (continued)

### CPI and exchange rates

Set out below are details regarding the CPI and representative exchange rates of the major currencies, and rates of change thereof.

| | **2018** | 2017 | 2016 | **2018** | 2017 |
|---|---|---|---|---|---|
| | Points | | | Change in % for the year | |
| **Consumer price index** | | | | | |
| November CPI ("known") | **102.4** | 101.2 | 100.9 | **1.2** | 0.3 |
| | NIS | | | | |
| **Exchange rate as at December 31** | | | | | |
| USD exchange rate (in NIS per 1 USD) | **3.748** | 3.467 | 3.845 | **8.1** | (9.8) |
| GBP exchange rate (in NIS per 1 GBP) | **4.793** | 4.682 | 4.725 | **2.4** | (0.9) |
| EUR exchange rate (in NIS per 1 EUR) | **4.292** | 4.153 | 4.044 | **3.3** | 2.7 |
| CHF exchange rate (in NIS per 1 CHF) | **3.807** | 3.555 | 3.767 | **7.1** | (5.6) |
| TRY exchange rate | **0.708** | 0.921 | 1.089 | **(23.1)** | (15.4) |

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| **As at December 31** | | | |
| Bank of Israel interest rate | **0.25%** | 0.10% | 0.10% |

### 2. Investments in affiliates

#### a. Consolidated financial statements and non-controlling interests

The financial statements of subsidiaries are included in the consolidated financial statements from the date of attainment of control to the date of cessation of control.

Accordingly, mutual balances and transactions between these entities and unrealized profits or losses between the entities are canceled in full.

Non-controlling interests represent the share of the capital of a subsidiary that cannot be directly or indirectly attributed to the Bank. Non-controlling interests are measured at the date of combination of the businesses, at fair value, and stated as a separate item within the equity of the Bank.

Profit or loss and any component of other comprehensive income are attributed to the shareholders of the Bank and to non-controlling interests.

Transactions between the Group and non-controlling interests that do not lead to a loss of control are treated as equity-level transactions. Any difference between the consideration paid or received and the change in non-controlling interests is allocated to the ownership share of the Bank, directly in capital.

## Note 1 Significant Accounting Policies (continued)

### b. Loss of control of a subsidiary

When control is lost, the Bank subtracts the assets and liabilities of the subsidiary, any non-controlling interests, and other components of capital attributed to the subsidiary, including amounts previously recognized in accumulated other comprehensive income. If the Bank retains any investment in the former subsidiary, the remaining investment is measured at fair value at the date of the loss of control.

The difference between the consideration received and the fair value of the remaining investment in the former subsidiary, and the balances subtracted, is recognized in profit and loss. Beginning on that date, the remaining investment is accounted for using the equity method or as a financial asset, according to the degree of influence of the banking corporation on the referenced company. Amounts recognized in capital through other comprehensive income in respect of that subsidiary are reclassified into profit or loss.

### c. Treatment of variable interest entities

A variable interest entity (VIE) is an entity that complies with one or more of the tests specified in ASC 810-10 (FAS 167): (1) the equity investment at risk is not sufficient to permit the entity to finance its activities without needing additional subordinated financial support provided by involved parties, including shareholders; or (2) the investors in equity, as a group, do not have the power to direct activities with a highly significant effect on the economic performance of the entity, through voting rights or similar rights, or they are not obligated to absorb their proportional share of the expected losses, or of the expected residual profits, of the entity.

The Bank shall be considered the primary beneficiary and the VIE shall be consolidated in the financial statements if the Bank has the power to direct activities with a highly significant effect on the economic performance of the VIE, and if the Bank has the right to receive benefits from the VIE or an obligation to absorb its losses, which could potentially be significant for the VIE.

The Bank has other variable interests in VIEs which are not consolidated because the Bank is not the primary beneficiary.

For further details regarding variable interest entities, see Note 25F.

### d. Investment in equity-basis investees

Equity-basis investees are entities in which the Bank has material influence over financial and operational policy, but has not attained control. The assumption is that a stake of 20% to 50% in an affiliate grants material influence.

Investments in equity-basis investees are accounted for using the equity method, and are recognized for the first time according to the cost of the investment, including transaction costs. The financial statements include the Bank's share of income and expenses, profit or loss, and other comprehensive income of affiliated entities accounted for using the equity method.

## Note 1 Significant Accounting Policies (continued)

**3. Basis for recognition of income and expenses**

As a rule, income and expenses are included in the statement of profit and loss on an accrual basis.

The Bank accounts for the income and expense items noted below as established in the directives and guidelines of the Banking Supervision Department:

**a.** Beginning on the date of classification of a debt as impaired (as detailed below), the Bank stops accruing interest income in respect of the debt (including CPI linkage differentials). In addition, upon classification of the debt as impaired, the Bank cancels all uncollected accrued interest income that has been recognized as income in the statement of profit and loss. The debt continues to be classified as debt that does not accrue interest income, as long as its classification as an impaired debt is not rescinded. However, a debt that has undergone formal troubled debt restructuring is treated as an impaired debt accruing interest income, based on the following cumulative conditions: (1) the debt is expected to be paid in full, according to the new amortization schedule of the loan; (2) in the case of an amortization schedule involving continuous monthly principal and interest payments, at least six continuous monthly payments have been made, or in the case of an amortization schedule without continuous monthly principal and interest payments, at least six months have elapsed from the origination of the loan, and at least 20% of the balance of the principal has been paid; (3) the customer has not been assigned an alert for a debt in arrears; (4) all of the customer's debt restructurings are accruing.

**b.** Payments received on problematic debts classified as impaired are used to reduce the principal of the loan when there is doubt regarding the collection of the recorded balance. As long as the remaining recorded balance of an impaired debt is considered fully recoverable, interest payments received in cash are recognized as income on a cash basis. In such situations, the amount of income recognized as interest income is limited to the amount that would have accrued during the reporting period on the remaining recorded balance of the debt, at the contractual interest rate. In addition, interest on amounts in arrears in respect of housing loans is recognized in the statement of profit and loss based on actual collection.

**c.** Fees charged for credit origination, with the exception of fees in respect of loans for a period of up to three months, are not recognized immediately as income in the statement of profit and loss; instead, they are deferred and recognized over the life of the loan as an adjustment of the return. Income from such fees is allocated according to the effective interest rate method, and reported as part of interest income.

**d.** Credit allocation fees are treated according to the probability of realization of the commitment to grant the credit. If the probability is remote, the fee is recognized on a straight-line basis over the period of the commitment. Otherwise, the recognition of income from such fees is deferred until the realization of the commitment or until it expires, whichever is earlier. If the commitment is realized, the fees are recognized by adjustment of the return over the life of the loan, as noted above. If the commitment expires without being realized, the fees are recognized at the date of expiration and reported within income from fees. For this purpose, the Bank assumes that the probability of realization of the commitment is not remote.

## Note 1 Significant Accounting Policies (continued)

**e.** In the case of refinancing or restructuring of non-problematic debts, it is necessary to determine whether the change in the terms of the loan is minor or otherwise. In cases where the change is not minor, all unamortized fees as well as early repayment fees collected from the customer in respect of changes in the terms of the credit are recognized in profit and loss. Otherwise, the aforesaid fees are included as part of the net investment in the new loan, and recognized as an adjustment of return, as noted above. For this purpose, the Bank assumes that the changes in the terms of the debt are minor.

**f.** Early repayment fees are recognized immediately within interest income.

**g.** Income from fees in respect of the delivery of services (e.g. from activity in securities and derivative instruments, credit cards, account management, conversion differences, and foreign trade) is recognized in profit and loss when the Bank gains the entitlement to receive it. Certain fees, such as fees in respect of guarantees and certain fees in respect of project financing, are recognized proportionally over the period of the transaction.

**h.** Securities – see Section E(5) below.

**i.** Derivative financial instruments – see Section E(6) below.

### 4. Impaired debts, credit risk, and allowance for credit losses

#### Application of the directives

The Bank implements the directives of the Banking Supervision Department concerning classification, measurement, and disclosure of impaired debts, credit risk, and allowance for credit losses, which are primarily based on the accounting principles implemented at banks in the United States. The directives are implemented with regard to credit to the public and other debt balances in respect of which no specific rules have been established in the Public Reporting Directives, such as deposits with banks, bonds, securities borrowed or purchased in agreements to resell, credit to the public, credit to the government, etc.

#### a. Classification of problematic credit

The Bank has established procedures for the identification of problematic credit, and for the classification of debts and of items of off-balance sheet problematic credit as impaired, substandard, or under special supervision. In this context, note that the Bank applies the directive of the Bank of Israel regarding the primary source of repayment, pursuant to which the determination of the appropriate classification for a debt, until default occurs, or until the probability of expected default becomes high, is based on the expected strength of the primary source of repayment of the debt (a current cash-flow based, stable, separate source that is under the borrower's control), notwithstanding the support of secondary and tertiary sources of repayment.

In the context of the classification of problematic credit, debt in arrears is debt in which principal or interest have not been paid on time, in reference to the contractual repayment terms. A current account or a current drawing account shall be reported as debt in arrears when the account remains continuously at a negative balance (in the absence of an approved credit facility), or in deviation from the approved credit facility, for 30 days or more; or if, within the credit facility, amounts credited to the account are lower than the negative balance and the credit facility, for a period of 180 days. Loans shall be reported as debt in arrears when the principal or interest have not been paid after 30 days have elapsed from the scheduled date of payment according to the contractual repayment terms of the debt.

## Note 1 Significant Accounting Policies (continued)

### Impaired credit

Credit risk is classified as impaired when, based on current information and events, the Bank expects to be unable to collect the full amounts owed to it according to the original contractual terms with the client. The decision to classify credit as impaired is based, among other factors, on the arrears of the debt; an assessment of the financial condition and repayment capability of the borrower; the existence and condition of collateral; the financial condition of guarantors, if any, and their commitment to support the debt; and the borrower's ability to obtain third-party financing. In any case, debt assessed on an individual basis (as detailed below) is classified as impaired when the principal or interest in respect of the debt is in arrears of 90 days. In addition, any debt the terms of which have been changed in the course of troubled debt restructuring is classified as impaired debt, unless a minimum allowance for credit losses was recorded before and after the restructuring, according to the method of the extent of arrears (as detailed below).
Impaired debt regains the status of unimpaired debt only when there are no principal or interest components in respect of the debt that are due but have not been paid, and the Bank expects the remaining principal and interest to be repaid in full, in accordance with the terms of the contract.

### Substandard credit

Substandard credit risk includes balance sheet and off-balance sheet credit risk insufficiently protected by the repayment capability of the borrower or of the pledged collateral, if any. Credit risk assigned this classification must have well-defined weaknesses that jeopardize the realization of the debt, such that there is a clear possibility that the Bank may incur a certain loss if the deficiencies are not remedied. Off-balance sheet credit risk is classified as substandard if there is at least a possibility that the liability in respect of the off-balance sheet item will be realized, and in addition, the debts that may be acquired as a result of the realization of the liability fit the classification of substandard debts.
Credit in respect of which an allowance for credit losses is recognized on a collective basis is classified as substandard when it is in arrears of 90 days.

### Credit under special supervision

Credit risk under special supervision includes balance sheet and off-balance sheet credit risk with potential weaknesses that should be given special attention by management. If not addressed, these potential weaknesses could result in deterioration of the probability of repayment of the credit or of the status of the Bank as a creditor at a certain future date. Off-balance sheet credit risk is classified as under special supervision if there is at least a possibility that the liability in respect of the off-balance sheet item will be realized, and in addition, the debts that may be acquired as a result of the realization of the liability fit the classification of debts under special supervision.

### b. Allowance for credit losses

The Bank is required to maintain an allowance for credit losses at an appropriate level in order to cover estimated credit losses with respect to its credit portfolio. In addition, the Bank is required to maintain an allowance at an appropriate level to cover estimated credit losses related to off-balance sheet credit instruments, such as contractual engagements to grant credit, unutilized credit facilities, and guarantees.
The allowance to cover estimated credit losses with respect to the credit portfolio is assessed by one of two methods: "individual allowance" and "collective allowance." The Bank also examines the overall appropriateness of the allowance for credit losses.

## Note 1 Significant Accounting Policies (continued)

### Individual allowance

Debts in respect of which the allowance for credit losses is examined on an individual basis include debts with a total contractual balance (without deducting charge-offs, unrecognized interest, allowance for credit losses, or collateral), at the level of the customer, of more than NIS 1 million (at the consolidated credit-card company, more than NIS 500 thousand), as well as debts of customers undergoing troubled debt restructuring. An individual allowance for credit losses is considered for every debt classified as impaired.

The individual allowance for credit losses is assessed based on expected future cash flows, discounted at the original interest rate of the debt. When it has been determined that repayment of the debt is contingent upon collateral, or when the Bank determines that seizure of an asset is expected, the individual allowance is assessed based on the fair value of the collateral pledged to secure the debt, following the application of cautious, consistent coefficients that reflect, among other factors, the volatility of the fair value of the collateral, the time that will elapse until the actual date of realization, and the expected costs of selling the collateral.

### Collective allowance

The collective allowance for credit losses is calculated in order to reflect allowances for impairment in respect of credit losses not individually identified inherent in large groups of small debts with similar risk attributes, and in respect of debts examined individually and found to be unimpaired. The allowance for credit losses in respect of debts evaluated on a collective basis is calculated based on average historical loss rates, in a breakdown by economic sector and by problematic and non-problematic credit, in the range of years in the period from January 1, 2011, to the reporting date. The Bank also considers relevant ambient factors in determining the rate of the allowance, including trends in the volume of credit in each sector, conditions in the sector, macro-economic data, evaluation of the overall quality of credit in the economic sector, changes in volumes and trends of balances in arrears and impaired balances, and the effects of changes in credit concentration.

In this context, in accordance with the directives of the Supervisor concerning the collective allowance in respect of credit for the economic sector of private individuals, the Bank is required to take into consideration a qualitative adjustment rate of no less than 0.75% of the balance of unimpaired consumer credit. Credit risk arising from receivables in respect of bank credit cards without interest charges was excluded from this calculation.

In accordance with the guidelines of the Banking Supervision Department, the collective allowance required in respect of off-balance sheet credit risk is based on the rates of allowance established for balance sheet credit (as detailed above), taking into consideration the expected rate of realization as credit of the off-balance sheet credit risk. The rate of realization as credit is calculated based on credit conversion coefficients, as detailed in Proper Conduct of Banking Business Directive 203, "Capital Measurement and Adequacy – Credit Risk – The Standardized Approach," with certain adjustments. This allowance is included in the item "other liabilities" in the balance sheet.

## Note 1 Significant Accounting Policies (continued)

**Allowance in respect of housing loans**

A minimum allowance in respect of housing loans is calculated according to a formula established by the Banking Supervision Department, taking the extent of arrears into consideration, such that the rate of the allowance increases with greater arrears. Calculation of the allowance according to the formula based on the extent of arrears is to be performed, if necessary, for all housing loans, with the exception of loans not repaid in periodic installments and loans used to finance activities of a business nature.

Pursuant to the directives of the Supervisor, the collective allowance for credit losses in respect of housing loans shall not fall below 0.35% of the balance of such loans at the reporting date.

The Bank examines the overall appropriateness of the allowance for credit losses. This evaluation of appropriateness is based on the judgment of the Board of Management, which takes the risks inherent in the credit portfolio into consideration.

### c. Charge-offs

The Bank performs charge-offs for any debt or part of a debt evaluated on an individual basis which is thought to be uncollectible and is of such low value that its retention as an asset is unjustified, or debt in respect of which the Bank has carried out prolonged collection efforts (defined in most cases as a period exceeding two years). In cases of debts contingent upon collateral in respect of which the individual allowance is assessed based on the fair value of the collateral, the Bank performs a charge-off for any debt balance exceeding the fair value of the collateral, deducting realization costs. With regard to debts not evaluated on an individual basis, charge-off rules were established based on the period of arrears (in most cases more than 150 consecutive days) and other problematic indicators. It is hereby clarified that charge-offs do not entail a legal waiver, and serve to reduce the reported balance of the debt for accounting purposes only, while creating a new cost base for the debt in the Bank's books. Notwithstanding the foregoing, with regard to debts examined on a collective basis that have undergone failed troubled debt restructuring, the need for an immediate charge-off is examined. In any case, charge-offs are performed with respect to such debts no later than the date when the debt becomes a debt in arrears of 60 days or more, in reference to the terms of the restructuring.

### d. Troubled debt restructuring

Troubled debt restructuring is defined as a debt in respect of which, for economic or legal reasons related to financial difficulties of the borrower, the Bank has granted a concession, in the form of a change in the terms of the debt, in order to ease the burden of cash payments for the borrower in the near term (reduction or postponement of cash payments required of the borrower), or in the form of the acceptance of other assets as partial or full settlement of the debt.

## Note 1 Significant Accounting Policies (continued)

In order to determine whether a debt arrangement executed by the Bank constitutes troubled debt restructuring, the Bank performs a qualitative examination of all of the terms of the arrangement and the circumstances under which it was executed, with the aim of determining whether the debtor is experiencing financial difficulties and whether the Bank granted the debtor a concession within the arrangement. In order to make this determination, the Bank examines the ability to collect from the customer and considers whether there are signs indicating that the borrower is experiencing difficulties at the time of the arrangement, or that there is a reasonable probability that the borrower would fall into financial difficulties without the arrangement.

The Bank does not classify debt as having undergone troubled debt restructuring if the debtor is granted a postponement of payments within the arrangement that is not material considering the frequency of payments, the contractual term to maturity, and the expected average duration of the original debt. In this context, if several arrangements involving changes in the terms of the debt have been executed, the Bank takes the cumulative effect of the previous restructurings into consideration in order to determine whether the postponement of payments is immaterial.

Restructured debts, including those which prior to the restructuring were not examined on an individual basis, are classified as impaired debt, and are evaluated on an individual basis, in order to record an allowance for credit losses or a charge-off. In general, restructured troubled debt continues to be measured and classified as impaired debt until it is paid in full. However, under certain circumstances, when troubled debt restructuring has been performed, and the banking corporation and the debtor subsequently enter into an additional restructuring agreement, the banking corporation is no longer required to treat the debt as a debt that has undergone troubled debt restructuring, if the following two conditions are fulfilled:

(a) The debtor is no longer experiencing financial difficulties at the date of the subsequent restructuring;

(b) According to the terms of the subsequent restructuring, the banking corporation has not granted a concession to the debtor (including a concession on the principal, on a cumulative basis, from the date of the original loan).

Such debt, which has undergone subsequent restructuring and which has been declassified as impaired, shall be assessed on a collective basis for the purpose of quantification of the allowance for credit losses, and the recorded debt balance of the debt shall not change at the time of the subsequent restructuring (unless cash is received or paid). If such debt is examined individually in subsequent periods, and it is found that an impairment in value should be recognized in respect of the debt, or the debt undergoes troubled debt restructuring, the Bank restores the impaired classification of the debt and treats it as a troubled debt restructuring.

### e. Foreclosed assets

In cases of troubled debt restructuring in which the Bank receives assets as full or partial settlement of the debt, such as rights to capital, third-party receivables, or other assets to be sold at a later date, these assets shall be recognized, at the fair value of the assets, at the date of the foreclosure. If the assets received constitute full settlement of the debt, and at the foreclosure date the recorded debt balance exceeds the fair value of the assets, the Bank recognizes an allowance for credit losses.

## Note 1 Significant Accounting Policies (continued)

**5. Securities**

**a.** Securities in which the Bank invests are classified into the following three portfolios:

- Bonds held to maturity – Bonds which the Bank has the intention and ability to hold until their maturity date. Bonds held to maturity are stated in the balance sheet at cost, plus interest and accrued linkage and exchange-rate differentials, taking into account the proportional part of the premium or discount, less losses in respect of other-than-temporary impairment.
- Securities held for trading – Securities acquired and held with the aim of selling them in the near future. Securities held for trading are stated in the balance sheet at fair value on the reporting date. Profits and losses from adjustments to fair value are allocated to the statement of profit and loss, in the item of non-interest financing income from trading activity.
- Securities available for sale – Securities not classified as bonds held to maturity or as securities held for trading. Shares for which a fair value is available and bonds are included in the balance sheet at their fair value on the reporting date. Shares for which no fair value is available are measured in the balance sheet at cost. Unrealized profits or losses from adjustments to fair value are not included in the statement of profit and loss, and are reported net, deducting an appropriate reserve for tax, in a separate item of equity within accumulated other comprehensive income. Realized profits or losses are stated in the item of non-interest financing income from non-trading activity.

**b.** Income from dividends, interest accrual, linkage and exchange-rate differentials, premium reduction or discounts (according to the effective interest-rate method), and losses from other-than-temporary impairment are allocated to the statement of profit and loss.

**c.** The Bank's investments in venture-capital funds are accounted for at cost, net of losses from other-than-temporary impairment. Profit from venture-capital investments is allocated to the statement of profit and loss upon realization of the investment.

**d.** The cost of realized securities is calculated on an average basis.

**e.** With regard to the treatment of other-than-temporary impairment, see Section E(8) below.

**6. Derivative financial instruments, including hedge accounting**

**a.** The Bank holds derivative financial instruments for the purpose of hedging foreign-currency risks and interest-rate risks, as well as derivatives not used for hedging, including embedded derivatives.

**b.** At the date of creation of the hedge, the Bank formally documents the hedging relationship between the hedging instrument and the hedged item, including the risk-management goal and strategy of the Bank in performing the hedge, and the manner in which the Bank plans to assess the effectiveness of the hedging relationship. The Bank assesses the effectiveness of the hedging relationship both at the inception of the hedge and on an ongoing basis, in accordance with its risk-management policy.

## Note 1 Significant Accounting Policies (continued)

**c.** Fair-value hedges

Changes in the fair value of a derivative financial instrument designated for hedging fair value are allocated to the statement of profit and loss. The hedged item is also stated at fair value, with reference to the hedged risks, and the changes in fair value are allocated to the statement of profit and loss. The effective part is recognized in the item of interest income/expenses, consistently with the classification of the income/expenses in respect of the hedged item. The ineffective part is recognized in non-interest financing income.

If the hedged instrument no longer complies with the criteria for an accounting hedge, or if it expires or is sold, canceled, or realized, or the Bank cancels the designation of the fair-value hedge, hedge accounting is discontinued.

**d.** Economic hedges

Hedge accounting is not applied to derivative instruments used as part of the asset and liability management (ALM) system of the Bank. Changes in the fair value of these derivatives are recognized in profit and loss as they arise.

**e.** Hedging of the net investment in a foreign operation – see Section E(1) above.

**f.** Derivatives not used for hedging

Changes in the fair value of derivatives not used for hedging are allocated immediately to profit and loss.

**g.** Embedded derivatives

Embedded derivative instruments are separated from the host contract and treated separately if: (a) there is no clear and close connection between the economic characteristics and risks of the host contract and of the embedded derivative instrument, including credit risks arising from certain embedded credit derivatives; (b) a separate instrument with the same terms as the embedded derivative instrument would comply with the definition of a derivative; and (c) the hybrid instrument is not measured at fair value through profit and loss.

An embedded derivative that has been separated is presented in the balance sheet together with the host contract. Changes in the fair value of embedded derivatives that have been separated are allocated immediately to profit and loss.

### 7. Establishing the fair value of financial instruments

Pursuant to ASC 820-10 (FAS 157), fair value is defined as the price that would be obtained from the sale of an asset, or that would be paid to transfer a liability, in an ordinary transaction between market participants at the date of measurement. In order to assess fair value, the standard requires the maximum possible use of observable inputs, and minimum use of unobservable inputs. Observable inputs represent information available in the market and received from independent sources, whereas unobservable inputs reflect the assumptions of the Bank. ASC 820-10 specifies a hierarchy of measurement techniques, based on whether the inputs used to establish fair value are observable or unobservable. These types of inputs form the following fair-value hierarchy:

- Level 1 data: Prices quoted (unadjusted) in active markets for identical assets or liabilities, accessible to the Bank at the measurement date.
- Level 2 data: Directly or indirectly observable inputs regarding the asset or liability other than quoted prices included in Level 1.
- Level 3 data: Unobservable inputs regarding the asset or liability.

## Note 1 Significant Accounting Policies (continued)

The hierarchy requires the use of observable market inputs when such information is available. In the classification of the data used to measure fair value into the different levels of the fair-value hierarchy, the Bank classifies the overall fair-value measurement as the lowest level of an input significant for the overall measurement.
Fair-value measurements of financial instruments are performed without taking a blockage factor into consideration, both for financial instruments evaluated according to Level 1 data and for financial instruments evaluated according to Level 2 or 3 data, with the exception of situations in which a premium or discount would be taken into account in the fair-value measurement by market participants in the absence of Level 1 data.

### Securities

The fair value of securities held for trading and of securities available for sale is determined based on market prices quoted in the primary market. When the security is traded in several markets, the evaluation is performed according to the market price quoted in the most effective market. If no quoted market price is available, the fair-value estimate is based on the best available information, with maximum use of observable inputs, taking into consideration the risks inherent in the financial instrument (market risk, credit risk, non-tradability, etc.).

### Derivative financial instruments

Derivative financial instruments that have an active market were evaluated according to the market value established in the primary market, or in the absence of a primary market, according to the market price quoted in the most effective market. Derivative financial instruments that are not traded were evaluated using models that take the risks inherent in the derivative instrument into consideration (market risk, credit risk, etc.).

### Assessment of credit risk and nonperformance risk

FAS 157 (ASC 820) requires the Bank to reflect credit risk and nonperformance risk in measuring the fair value of debt, including derivative instruments, issued by the Bank and measured at fair value. Nonperformance risk includes the credit risk of the Bank, but is not limited to this risk alone.
The Bank assesses credit risk in derivative instruments in the following manner:

- When sufficient liquid collateral exists in respect of the exposure, specifically securing the derivative instrument at a high degree of legal certainty, the Bank takes such collateral into consideration in determining the credit risk.
- When exposure in respect of the counterparty is material, the Bank performs a fair-value assessment based on indications of the quality of credit of the counterparty from transactions in an active market, insofar as such indications are available with reasonable effort. The Bank derives these indications, among other matters, from prices of debt instruments of the counterparty traded in an active market, and from prices of credit derivatives the basis for which is the quality of credit of the counterparty. If no such indications exist, the Bank calculates the adjustments based on internal ratings (e.g. estimates of expected default rates and rates of credit losses in the event of default).

The calculation is performed based on an internal model that assumes various scenarios regarding the value of the transactions. For further details regarding the main methods and assumptions used to estimate the fair value of financial instruments, see Note 32 below concerning balances and fair-value estimates of financial instruments.

## Note 1 Significant Accounting Policies (continued)

**8. Impairment of financial assets**

**a.** Credit to the public and debt balances – see Section E(4) above.

**b.** Securities

Each reporting period, the Board of Management of the Bank determines whether decreases in the fair value of securities classified into the available-for-sale portfolio and the held-to-maturity portfolio are other than temporary. This examination includes several stages and principles, in accordance with the policy established at the Bank, primarily the following:

(1) A determination whether the impairment is other than temporary, and the amount of the impairment:

- Securities which, at the balance sheet date, the Bank does not intend to hold, or securities sold after the balance sheet date at less than cost, constitute securities in which other-than-temporary impairment has occurred.
- Securities the value of which has decreased by more than 20% relative to their cost, with respect to capital instruments, or 15%, with respect to debt instruments, when the decrease in value has persisted for more than six months, constitute securities in which other-than-temporary impairment has occurred, unless it can be demonstrated that special circumstances prevailed.
- Securities the value of which has decreased by 40% or more of the cost of the security, with respect to capital instruments, or 30% with respect to debt instruments, at or after the balance sheet date, constitute securities in which other-than-temporary impairment has occurred, unless it can be demonstrated that special circumstances prevailed.
- Debt instruments that have undergone a downgrade in rating to below Investment Grade constitute securities in which other-than-temporary impairment has occurred.
- Debt instruments classified as problematic (impaired, substandard, under special supervision) by the Bank.

(2) Preparation of a watch list – a quantitative and qualitative examination is performed to identify and evaluate securities whose value has decreased, where other-than-temporary impairment may have occurred.

(3) Specific examination – all securities on the watch list are examined specifically. The examination is performed separately for debt instruments and capital instruments, and includes the following parameters, among others:

- The Bank's ability and intention to hold the security for a sufficient period to allow the value of the security to return to the level of its cost.
- The value of collateral and safety cushions backing the security.
- The rating of the security by international and local rating agencies, including developments in these ratings after the balance sheet date.
- The rate of impairment of the security relative to its total cost.
- The amount of time for which the fair value of the security is lower than its cost.
- The financial condition of the issuer and changes in its business environment, including an examination of whether the impairment reflects circumstances unique to the issuer or general market conditions.
- Events after the balance sheet date.

## Note 1 Significant Accounting Policies (continued)

(4) Documentation of the results of the examination, as required pursuant to the rules established at the Bank.

When other-than-temporary impairment occurs in a security, the cost of the security is written down to its fair value at the balance sheet date and used as the new cost base. The amount of the write-down is charged to the statement of profit and loss. Appreciation in subsequent periods, for securities in the portfolio available for sale, is recognized in a separate item of capital within accumulated other comprehensive income, and is not allocated to profit and loss.

### 9. Offsetting financial assets and liabilities

The Bank offsets assets and liabilities arising from the same counterparty and presents the net balance thereof in the balance sheet, when the following cumulative conditions are fulfilled:

- A legally enforceable right exists to offset the liabilities against the assets;
- The Bank intends to settle the liability and realize the assets on a net basis or simultaneously;
- The Bank and the counterparty owe one another determinable amounts.

The Bank offsets deposits where the repayment to the depositor is contingent upon the extent of collection from credit and credit granted from such deposits, when the Bank has no risk of loss from the credit.

In accordance with the directives of the Banking Supervision Department, the Bank does not offset assets in respect of derivative instruments against liabilities in respect of derivative instruments. The Bank therefore continues to present exposures in respect of transactions in a gross amount in its financial statements.

### 10. Transfers and servicing of financial assets and extinguishment of liabilities

#### Transfers of financial assets

Transfers of financial assets are accounted for as sales if, and only if, all of the following conditions are met: (1) the financial asset transferred is isolated from the transferring party, including in situations of bankruptcy or other receivership; (2) any recipient may pledge or exchange the assets received, and there is no condition that also restricts the recipient in exercising the right to pledge or exchange, and grants the transferring party a benefit that is greater than a trivial benefit; (3) the transferring party does not retain effective control of the financial assets transferred.

In order for the transfer of part of a financial asset to be considered a sale, the transferred part must comply with the definition of participatory rights. Participatory rights meet the following criteria: the right must represent proportional rights relative to the full financial asset; all cash flows obtained from the assets are distributed among the participatory rights in a manner proportional to their share of the ownership; the rights are not subordinated to other rights; there is no right of return to the transferring party or to other holders of participatory rights (except in cases of the breach of representations or commitments, current contractual commitments to service a financial asset in its entirety and manage the transfer contract, and contractual commitments to share the offsets of any benefits received by any holder of participatory rights); and the transferring party and the holder of participatory rights have no right to pledge or exchange the financial asset in its entirety, unless all of the holders of participatory rights agree to pledge or exchange the financial asset in its entirety.

## Note 1 Significant Accounting Policies (continued)

If the transaction complies with the conditions for treatment of a transaction as a sale, the transferred financial assets or the participatory right are subtracted from the balance sheet of the Bank. If the conditions for a sale are not met, the transfer is considered a secured debt. The sale of part of a financial asset that is not a participatory right is treated as a secured debt; i.e., the transferred assets continue to be recorded in the balance sheet of the Bank, and the consideration from the sale is recognized as a liability of the Bank.

### Securities lending or borrowing transactions

The Bank implements specific directives established in the Public Reporting Directives for the treatment of securities lending or borrowing transactions in which the loan is executed against the general credit quality and the general collateral of the borrower, or when the borrower does not transfer liquid instruments, which the lender is entitled to sell or pledge, to the lender, as collateral referring specifically to the securities lending transaction. When the banking corporation lends securities, it subtracts the securities loaned and recognizes, in credit, the amount of the market value of the transferred securities. In subsequent periods, the credit is recognized in the same manner in which the security was measured prior to the loan. At the end of the loan, the credit is subtracted and the banking corporation recognizes the security again. When the banking corporation borrows securities in unsecured borrowing, the banking corporation recognizes the security, and recognizes a deposit against it, according to the value of the security received in the borrowing transaction. The security borrowed by the banking corporation is classified as a security in the trading portfolio.

### Short selling

When a banking corporation shorts a security that it has borrowed, cash is recognized against a deposit. The deposit is revalued only if the value of the security increases during this period, and is recognized in the statement of profit and loss, within the item of "non-interest financing income."

### Subtraction of a liability

The Bank subtracts liabilities only when the liability is extinguished. Extinguishment of a liability may be performed through payment to the lender or through judicial release.

### 11. Fixed assets

#### Recognition and measurement

Fixed-asset items are measured at cost, with the deduction of accrued depreciation and losses from impairment. Cost includes expenses directly attributable to the acquisition of the asset.

Costs of acquired software that constitute an integral part of the operation of the related equipment are recognized as part of the cost of such equipment. In addition, pursuant to the Public Reporting Directives, the Bank classifies costs in respect of software assets acquired or costs capitalized as an asset in respect of software developed in-house for internal use under the item "buildings and equipment."

Profit or loss from the disposal of a fixed-asset item is recognized as a net amount under the item "other income" in the statement of profit and loss.

## Note 1 Significant Accounting Policies (continued)

### Software costs

Software acquired by the Bank is measured at cost, with the deduction of amortization and losses from impairment. Capitalization of costs related to the development of software for in-house use begins only when the initial stage of the project has been completed, and when management with the appropriate authority has approved and has undertaken a commitment to finance the project, and it is expected that the development will be completed and that future economic benefits will arise from the software.

Overhead costs that cannot be directly attributed to the development of the software and research costs in the initial stage of the project are recognized as expenses as incurred. In addition, the Bank has implemented the guidelines of the Banking Supervision Department concerning capitalization of software costs, pursuant to which a materiality threshold has been set for capitalization. Further, for deliverables with total capitalizable costs not lower than the materiality threshold, a capitalization coefficient lower than 1 has been established, in order to take into account the potential for inefficiency and common deviations in software development projects. The rank of employees whose costs are capitalized to assets has been restricted to the level of manager of the software project. Capitalizable software development costs of all development employees are recorded through individual hour reports.

### Subsequent costs

The cost of replacing part of a fixed-asset item and other subsequent costs are recognized as part of the book value of fixed assets, if the future economic benefits inherent therein are expected to flow to the Group, and if the cost thereof is reliably measurable. The book value of the replaced part of a fixed-asset item is subtracted. Costs of upgrades and improvements of software for internal use are only capitalized if the expenses that arise are expected to lead to added functionality. Routine maintenance costs and other costs are allocated to profit and loss as incurred.

### Depreciation and amortization

Depreciation is allocated to the statement of profit and loss using the straight-line method, over the estimated useful life of each component of the fixed-asset items. Leased assets are depreciated over the shorter of the period of the lease and the period of use of the assets. Land owned by the Bank is not depreciated. Improvements to rented properties are depreciated over the shorter of the period of the lease or the period of use of the property. Amortization is allocated to the statement of profit and loss, using the straight-line method, over the estimated useful life, starting on the date when the software is available for use. Software in development is not amortized systematically as long as it is not available for use. Accordingly, a test of impairment is performed at least once a year, until it becomes available for use. The depreciation method, useful life, and residual value are reexamined at least at the end of each fiscal year, and adjusted when necessary.

## Note 1 Significant Accounting Policies (continued)

### 12. Leases

Leases, including leases of land from the Israel Land Administration or from other third parties, in which the Bank materially bears all of the risks and returns from the asset, are classified as finance leases. At initial recognition, leased assets are measured at an amount equal to the lower of the fair value and the present value of the minimum future leasing fees. Future payments for the exercise of an option to extend the term of the lease from the Israel Land Administration are not recognized as part of the asset and liability. After the initial recognition, the asset is accounted for as a fixed asset.

Other leases are classified as operational leases, while the leased assets are not recognized in the balance sheet of the Bank.

Payments for operational leases are allocated to profit and loss using the straight-line method, over the period of the lease.

### 13. Impairment of non-financial assets

The Bank examines non-current assets for impairment when events or changes in circumstances indicate that the book value of the asset may not be recoverable. Losses from impairment are recognized only if the book value of the asset exceeds its fair value.

The book value is unrecoverable if it exceeds the total uncapitalized cash flows expected to derive from the use and realization of the asset.

The loss is recognized in the amount of the difference between the book value and the fair value of the asset. This loss is not canceled in subsequent periods.

#### Impairment of in-house software development costs

Impairment of in-house software development costs is recognized and measured upon the occurrence of the events or changes in circumstances that indicate a possibility that the book value of the asset may not be recovered. Examples of events or changes in circumstances indicating impairment:

a. The software is not expected to provide significant potential services;
b. The manner or volume of use or expected use of the software has changed substantially;
c. The software has been or will be substantially changed;
d. Costs of the development or conversion of the software designated for internal use significantly exceed the expected amounts;
e. The development of the software is not expected to be completed and the software is not expected to be used.

## Note 1 Significant Accounting Policies (continued)

### 14. Realization group held for sale and discontinued operation

#### Realization group held for sale

The Bank classifies a realization group asset as held for sale if its book value will be recovered primarily through sale, rather than through ongoing use, in a period in which all of the following criteria are fulfilled: (1) the management authorized to approve the activity is committed to the plan to sell the realization group; (2) the realization group is available for immediate sale in its present condition; (3) an active plan to find a buyer and other actions to complete the sale plan have been initiated; (4) the sale of the realization group is probable and expected to be completed within one year of the date of the classification; (5) the realization group is being actively marketed for the purpose of its sale, at a reasonable price relative to its present fair value; (6) actions required in order to complete the planning indicate that it is unlikely that the planning will change significantly or be canceled.

At the date of classification of the realization group as held for sale, the need to recognize impairment of the relevant assets is examined, according to the standards applicable to such assets. Non-current assets subject to deprecation or amortization which are associated with the realization group (e.g. fixed assets or other assets) will no longer accrue depreciation, and all assets and liabilities attributed to the realization group will be presented in two separate lines. A subsidiary classified as a realization group held for sale will continue to be consolidated, but all assets and liabilities attributed to the activity will be presented in two separate lines in the balance sheet of the Bank, as noted.

#### Discontinued operation

The Bank classifies a realization group as a discontinued operation when all of the following criteria are fulfilled: (1) the realization group constitutes a component of an entity; (2) the realization group has been realized, or fulfills the conditions for classification as an asset held for sale; (3) the realization group represents a strategic change that has (or will have) a material effect on the activities and financial results of the Bank.

The Bank restates comparative figures with respect to a discontinued operation in the statement of profit and loss as though the operation had been discontinued at the beginning of the earliest comparative period.

### 15. Employee benefits

Pursuant to the law, agreements, and common practice, the Bank is required to pay retirement benefits to employees, including payments in accordance with defined benefit plans in respect of pensions (e.g. pension allowances, severance pay, and retirement compensation); payments according to other post-retirement and post-employment plans (e.g. holiday gifts, and other well-being and health payments paid to or in respect of retirees); and payments in accordance with defined deposit plans (e.g. payments to provident funds or pension funds, pursuant to Section 14 of the Severance Pay Law, 1963). In addition, pursuant to the directives of the Banking Supervision Department, a banking corporation that expects a group of employees to be paid benefits beyond their contractual terms should take into account the percentage of employees expected to depart (including employees expected to retire under voluntary retirement programs or upon receiving other preferred terms) and the benefits that they are expected to receive upon departure. The Bank's liabilities for severance pay to employees of the Bank, pursuant to Section 14 of the Severance Pay Law, are treated as a defined deposit plan. The banking corporation recognizes the net cost of the pension for the period, according to the deposit required for that period.

## Note 1 Significant Accounting Policies (continued)

Liabilities of the Bank for severance pay, pensions, and other benefits, other than pursuant to Section 14 of the Severance Pay Law; other long-term benefits; and other post-employment and post-retirement benefits are treated as a defined benefit plan and calculated on an actuarial basis, taking probabilities into consideration, based on past experience. The discount rate for employee benefits is calculated based on the yield of government bonds in Israel, plus the average spread over corporate bonds rated AA (international) or higher, which is determined based on the difference between rates of yield to maturity, by maturity periods, of corporate bonds rated AA or higher in the United States, and rates of yield to maturity for the same maturity periods of United States government bonds, all at the reporting date.

Service cost, interest cost, return on plan assets, amortization of net actuarial profit or loss, amortization of cost or credit in respect of prior service, and amortization of actuarial profit or loss included in accumulated other comprehensive income are allocated to profit and loss in respect of the aforesaid benefits.

Actuarial profit or loss is the change in value of a liability in respect of a forecast benefit, or of plan assets, due to a difference between actual experience and estimates, or due to a change in an actuarial assumption. Actuarial profits and losses are included in accumulated other comprehensive income, and depreciated using the straight-line method over the average remaining service period of the employees expected to receive benefits according to the plan.

Cost or credit in respect of prior service is depreciated as a component of the net pension cost for the period, in a straight line, over the average remaining service period of the employees expected to receive benefits according to the plan.

Short-term employee benefits (such as labor wages, vacations, and bonuses) are measured on an uncapitalized basis, and the expense is allocated when the related service is rendered.

### 16. Share-based payment

Share-based payment transactions encompass services received from employees in consideration for the issuance of shares of the Bank, stock options, or other capital instruments. These transactions also include liabilities to employees, given one of the two following conditions: 1) the amount is based, at least in part, on the share price of the Bank, or on another equity instrument of the Bank; 2) the grant requires, or may require, settlement through issuance of shares of the banking corporation or other capital instruments of the banking corporation. Transactions including a liability to be extinguished in cash, or through the issuance of a variable number of shares of the Bank based on a fixed monetary value, are classified as liabilities.

With regard to share-based payment transactions classified as equity grants, the value of the benefit is measured at the date of the grant, with reference to the fair value of the capital instruments granted. The value of the benefit is recognized in profit and loss as a salary expense, against a corresponding increase in equity. For the purpose of the recognition of the expense and its attribution over the appropriate service periods of the employees, the Bank takes service conditions and execution conditions (which are not market conditions) into consideration, such that the recognition of the expense is based on the number of instruments for which the service conditions and the execution conditions are expected to be fulfilled. An execution target that can be achieved after the service period is treated as an execution condition.

With regard to share-based payment transactions classified as liability grants, the Bank remeasures the fair value of the liability at the end of each reporting period, and at the date of extinguishment. Any changes in the fair value are recognized in profit and loss for the period, against the liability.

## Note 1 Significant Accounting Policies (continued)

**17. Acquisition of shares of the Bank by the Bank**

When the Bank buys its own shares, the amount of the consideration paid, including direct costs, is deducted from equity. When the shares are sold or reissued, the amount of the consideration received is recognized as an increase in equity, and the surplus or deficit arising from the transaction is allocated to the balance of the premium.

**18. Contingent liabilities**

The Bank Group is a party to various legal proceedings, within its activities in a wide range of types of financial services, including claims filed by customers and petitions by various parties to certify claims as class actions. The Group is also a party to examinations or investigations by legal and regulatory agencies. The Group applies the directives of the Banking Supervision Department regarding contingent liabilities, which are based on the directives of ASC 450. Such proceedings are examined individually, with the assistance of legal advisors, who assess the risk of realization of the exposure.

Probable risk refers to a situation in which the probability of realization of the exposure to risk is over 70%. Provisions are included in the financial statements in respect of contingent liabilities in this risk group.

Reasonably possible risk refers to a situation in which the probability of realization of the exposure to risk is between 20% and 70%. No provision is included in the financial statements in respect of contingent liabilities in this risk group, but disclosure is given.

Remote risk refers to a situation in which the probability of realization of the exposure to risk is lower than 20%. No provision is included in the financial statements in respect of contingent liabilities in this risk group and no disclosure is given.

A provision for contingent liabilities is recorded if the following two conditions are fulfilled: (a) the value of an asset (or liability) is expected to decrease at the reporting date; (b) the amount of the loss is measurable in a reasonable manner. If the Bank estimates, based on the opinion of its legal advisors, that it is not possible to reliably estimate the amount of a loss, a range of exposure scenarios is prepared, and if a particular amount within that range constitutes, at that date, a better estimate than the other amounts within the same range, that amount is accrued as a provision. If there is no amount within the range that constitutes a better estimate than any other amount, the requirement is to record the minimum amount in the range as a provision.

Legal claims regarding which the Banking Supervision Department has determined that the Bank is required to pay reimbursement are classified as "probable," and a provision is made in respect of each claim commensurate with the amount that the Bank is required to reimburse.

In rare cases, the Bank has determined that in the opinion of the Bank's Board of Management, based on the opinion of its legal advisors, the probability of realization of the exposure to risk in respect of an ordinary claim or in respect of a claim certified as a class action cannot be estimated, in cases in which the Bank has not yet published four financial statements since the first inclusion of the claim, and therefore no provision has been made.

Note 25C contains disclosure of every claim in an amount greater than 1% of the capital of the Bank. With regard to claims the outcome of which cannot be estimated at this stage, disclosure is given for every claim in an amount greater than 0.5% of capital.

## Note 1 Significant Accounting Policies (continued)

As noted, the requirement pursuant to the directives is to provide disclosure of loss amounts the probability of realization of which is not remote.
According to the assessment of the Board of Management and based on the opinions of its legal advisors, the financial statements include sufficient provisions for contingent liabilities.

### 19. Expenses for income taxes

The financial statements of the Bank include current taxes and deferred taxes. Current and deferred taxes are allocated to the statement of profit and loss, unless the tax arises from a transaction or event recognized directly in equity or in other comprehensive income. In such cases, the expense for income taxes is allocated to equity or to other comprehensive income, as relevant. The provision for taxes on the income of the Bank and its consolidated companies which are financial institutions for the purposes of value-added tax includes a profit tax imposed on income under the Value Added Tax Law. The wage tax applied to financial institutions pursuant to the Value Added Tax Law is included in the statement of profit and loss under the item, "salaries and related expenses."

#### Current taxes

Current tax is the amount of tax expected to be paid (or received) on the taxable income for the year, calculated according to the applicable tax rates under laws enacted at the balance sheet date, including changes in tax payments referring to previous years.

#### Deferred taxes

The Bank recognizes deferred taxes with reference to temporary differences between the book value of taxable assets and liabilities for the purposes of financial reporting and their value for tax purposes.
The Bank did not recognize deferred-tax liabilities in respect of temporary differences created up to December 31, 2016, in respect of investments in local subsidiaries. These temporary differences may be taxable if the Bank realizes its investment in the local subsidiaries. Beginning January 1, 2017, the Bank recognized a deferred-tax liability for taxable temporary differences in respect of local subsidiaries.
The Bank recognizes deferred-tax assets in respect of all deductible temporary differences and losses carried forward. A deferred-tax asset is reduced by the amount of the valuation allowance if it is more likely than not that all or part of the deferred-tax asset will not be realized.
The deferred taxes are measured according to the tax rates expected to apply to the temporary differences at the date when they are realized, based on laws enacted at the balance sheet date.
The creation of net deferred tax assets shall not exceed the current taxes in the accounting period, except in special cases in which taxable income is expected to exist in the future against which they can be used.

#### Offsets of deferred tax assets and liabilities

The Bank offsets deferred tax assets and liabilities if an enforceable legal right exists to offset current tax assets and liabilities, and they are attributed to the same taxable income item taxed by the same tax authority for the same taxed company, or in different companies in the Group that intend to settle current tax assets and liabilities on a net basis, or the tax assets and liabilities are settled simultaneously.

## Note 1 Significant Accounting Policies (continued)

### Uncertain tax positions

The Bank recognizes the effect of tax positions only if it is more likely than not that the positions will be accepted by the tax authorities or by the court. Recognized tax positions are measured according to the maximum amount with a probability of realization greater than 50%. Changes in recognition or measurement are reflected in the period during which the changes in circumstances occurred that led to the change in the decision.

### 20. Earnings per share

The Bank presents data on basic and diluted earnings per share with respect to its ordinary share capital. Basic earnings per share are calculated by dividing the profit or loss attributed to holders of the ordinary shares of the Bank by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are determined by adjusting the profit or loss (such as adjustments in respect of the effect of dividends after tax, any financing costs, and other changes) attributed to the holders of ordinary shares and adjusting the weighted average of ordinary shares outstanding, after adjustment for shares in treasury and for the effects of all potentially dilutive ordinary shares, which include share options and share options granted to employees.

### 21. Reporting on segments of activity

#### Supervisory activity segments

The Bank reports on supervisory activity segments according to a uniform comparable format established by the Banking Supervision Department. Supervisory activity segments are primarily defined based on customer classifications. Private customers are classified, based on the volume of their financial assets, into the household segment and the private-banking segment. Customers other than private individuals are classified, primarily based on annual revenue, into the business segments (separated into microbusinesses and small businesses, mid-sized businesses, and large businesses), institutional entity segment, and financial management segment.

#### Management approach activity segments

Pursuant to the directives of the Banking Supervision Department, a bank whose activity segments based on the approach of its management are substantially different from the supervisory activity segments shall provide additional disclosure of segments of activity based on the management approach. A segment of activity is a component of the Bank engaged in activities from which it is likely to derive income and bear expenses, the results of operations of which are regularly examined by the Board of Management and the Board of Directors in order to make decisions regarding resource allocation and evaluate performance, and in respect of which separate financial information exists. The division into segments at the Bank is based on characteristics of customer segments. These segments also include banking products. The results of products that cannot be attributed to the relevant customer segments are included in "Others and Adjustments."

## Note 1 Significant Accounting Policies (continued)

**22. Related party disclosures**

Information regarding balance sheet and off-balance sheet balances and information regarding business results with interested and related parties is provided in accordance with the Public Reporting Directives, with respect to all persons defined as interested parties, related parties, or related persons, based on the definition in Section 80 of the Public Reporting Directives.

**23. Transactions with controlling parties**

The Bank implements US GAAP for accounting for transactions between a banking corporation and its controlling party or a company controlled by the bank. In situations where these rules do not address the treatment method, the Bank applies the rules established in Standard 23 of the Israel Accounting Standards Board, "Accounting Treatment of Transactions between an Entity and its Controlling Party."

Assets and liabilities regarding which a transaction has been executed with a controlling party are measured at fair value at the date of the transaction. Because a transaction on the equity level is involved, the Group allocates the difference between the fair value and the consideration from the transaction, if any, to equity.

## Note 1 Significant Accounting Policies (continued)

### F. New accounting standards and new directives of the Banking Supervision Department in the period prior to implementation

| Subject | Main points | Inception date and transitional directives | Effect on the Bank |
|---|---|---|---|
| ASU 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities" | Main changes expected due to the implementation of this update: Measurement of investments in equity instruments at fair value through the statement of profit and loss, instead of the current measurement, which generally requires unrealized adjustments of fair value to be recorded in other comprehensive income. However, investments in equity securities that do not have readily determinable fair values can be measured at cost minus impairment, with adjustments for observable price changes in ordinary transactions for an identical or similar investment of the same issuer. All adjustments of the investment cost are allocated to profit and loss. In addition, the manner of presentation of financial instruments in the balance sheet will be updated. | January 1, 2019. Upon initial implementation, unrealized profits in respect of shares available for sale included in a capital reserve will be reclassified to retained earnings. | According to the estimates of the Bank, the effect of the adoption of the directives on the financial statements is not expected to be material. |
| ASU 2017-12, "Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities" | The update facilitates and simplifies the application of accounting guidelines concerning hedging, mainly in connection with the requirements for testing the effectiveness of hedges and documenting hedges. The update also expands the ability of banks to hedge certain risk components, thereby creating congruence between the manner of recording hedging instruments and hedged items in the financial statements. | January 1, 2019. | According to the estimates of the Bank, the effect of the adoption of the directives on the financial statements is not expected to be material. |
| ASU 2016-02, "Leases" (ASC 842) | Adoption of GAAP for US Banks concerning leases. The main objective of the new rules is to fully reflect, in the financial statements, the level of leverage created by long-term lease contracts. The main changes following the application of these rules are: Banks that lease assets for a period exceeding one year shall recognize them in the balance sheet, even if the lease is classified as an operating lease. An asset shall be recorded in the balance sheet in respect of operating lease transactions reflecting the right to use the leased asset, and conversely, the liability for payment for the lease shall be recorded. | January 1, 2020. | The Bank is preparing to implement this standard. |
| ASU 2016-13, "Financial Instruments – Credit Losses" | The main objective of this update is to provide more useful information regarding expected credit losses on financial instruments and commitments to grant credit. Towards that end, the amendments in this update replace the method of allowance for credit losses based on incurred losses with a method that reflects expected credit losses over the life of the credit and requires consideration of a broader range of forward-looking information to reflect reasonable forecasts of future economic events. The new rules for the calculation of the allowance for credit losses will apply to credit (including housing loans), bonds held to maturity, and certain off-balance sheet credit exposures. In addition, the manner in which impairments of bonds in the portfolio available for sale are recorded will change, and the disclosure of the effect of the date of granting of the credit on the credit quality of the credit portfolio will be expanded. | January 1, 2021. In general, the new rules will be applied by recording the cumulative effect in retained earnings at the initial implementation date. | The Bank is preparing to implement this standard. |

## Note 1 Significant Accounting Policies (continued)

NIS millions

### G. Discontinued operation

In light of the progress in the processes of separation from the Isracard Group, as described in Note 15 below, the Bank determined that the criteria for classification of the Isracard Group as a realization group "held for sale" were fulfilled, beginning June 30, 2018. According to the aforesaid United States standards, a realization group held for sale should be classified as a discontinued operation if the sale constitutes a strategic change that will have a material effect on the activities and financial results of the entity. The Bank conducted an examination and determined that the Isracard Group meets these criteria; accordingly, beginning with the financial statements for the second quarter of 2018, the Isracard Group is presented as a "discontinued operation."

- In accordance with the directives in United States accounting standards, at the date of classification as a discontinued operation, the Bank classified all of the assets and liabilities attributed to the operation in the balance sheet as separate lines in the statement of financial position, including amendment of comparative figures.
- Similarly, in the statement of profit and loss, the Bank presented profit attributed to the discontinued operation separately, for all of the reported periods.
- Beginning on that date, in accordance with the directives of the United States standards, the Bank stopped accruing depreciation in respect of the depreciable assets of the Isracard Group.

#### a. Composition of assets and liabilities attributed to a discontinued operation

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Net credit to the public | **14,366** | 12,810 |
| Buildings and equipment | **356** | 269 |
| Others | **388** | 350 |
| Total assets of the Isracard Group | **15,110** | 13,429 |
| | | |
| Other liabilities | **13,951** | 13,927 |
| Deposits | **782** | 507 |
| Total liabilities of the Isracard Group | **14,733** | 14,434 |

## Note 1 Significant Accounting Policies (continued)

NIS millions

### b. Profit and loss attributed to a discontinued operation*

| | For the year ended December 31 | | |
|---|---|---|---|
| | **2018** | 2017 | 2016 |
| **Income** | | | |
| Net interest income | **312** | 273 | 235 |
| Fees | **1,717** | 1,634 | 1,534 |
| Others | **(4)** | 7 | 12 |
| **Expenses** | | | |
| Provision for credit losses | **152** | 121 | 90 |
| Salaries and related expenses | **321** | 346 | 332 |
| Other expenses | **983** | 885 | 825 |
| Maintenance and depreciation of buildings** | **71** | 125 | 126 |
| Profit before taxes | **498** | 437 | 408 |
| Provision for taxes on profit | **128** | 118 | 129 |
| Net profit before attribution to non-controlling interests | **370** | 319 | 279 |
| Profit attributed to non-controlling interests | **6** | 5 | 5 |
| Net profit | **364** | 314 | 274 |

* Without netting of intercompany transactions between the Bank and the Isracard Group.
** Beginning in the third quarter of 2018, the statement of profit and loss does not include deprecation expenses attributed to the discontinued operation.

### c. Cash flow attributed to a discontinued operation

| | For the year ended December 31 | | |
|---|---|---|---|
| | **2018** | 2017 | 2016 |
| Net cash flow from operating activity | **1,270** | 828 | 1,595 |
| Net cash flow from investing activity | **(987)** | (426) | (900) |
| Net cash flow from financing activity | **(282)** | (392) | (696) |
| Increase (decrease) in cash and cash equivalents attributed to a discontinued operation | **1** | 10 | (1) |
| Balance of cash at beginning of year | **21** | 11 | 12 |
| Balance of cash at end of year | **22** | 21 | 11 |

### d. Earnings per ordinary share in NIS – net profit attributed to shareholders of the Bank from a discontinued operation

| | For the year ended December 31 | | |
|---|---|---|---|
| | **2018** | 2017 | 2016 |
| Basic earnings | **0.27** | 0.24 | 0.21 |
| Diluted earnings | **0.27** | 0.24 | 0.21 |

## Note 2 Interest Income and Expenses[1]

NIS millions

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| **A. Interest income*** | | | |
| From credit to the public | **10,524** | 9,618 | 9,228 |
| From credit to governments | **70** | 57 | 54 |
| From deposits with banks | **266** | 270 | 120 |
| From deposits with the Bank of Israel and from cash | **56** | 43 | 36 |
| From securities borrowed or purchased under agreements to resell | **-** | - | - |
| From bonds | **755** | 625 | 523 |
| From other assets | **1** | - | 1 |
| Total interest income | **11,672** | 10,613 | 9,962 |
| | | | |
| **B. Interest expenses**** | | | |
| On deposits from the public | **(1,636)** | (1,117) | (904) |
| On deposits from the government | **(6)** | (7) | (10) |
| On deposits from the Bank of Israel | **-** | - | - |
| On deposits from banks | **(29)** | (10) | (24) |
| On securities lent or sold under agreements to repurchase | **-** | 2 | (1) |
| On bonds and subordinated notes | **(1,085)** | (1,051) | (1,061) |
| On other liabilities | **(10)** | (6) | (4) |
| Total interest expenses | **(2,766)** | (2,189) | (2,004) |
| Total net interest income | **8,906** | 8,424 | 7,958 |
| | | | |
| **C. Details of net effect of hedging derivative instruments on interest income and expenses**** | | | |
| Interest income | **(43)** | (78) | (147) |
| Interest expenses | **(4)** | (11) | (14) |
| | | | |
| **D. Details of interest income from bonds on a cumulative basis** | | | |
| Held to maturity | **13** | 13 | 13 |
| Available for sale | **701** | 588 | 493 |
| Held for trading | **41** | 24 | 17 |
| Total included in interest income | **755** | 625 | 523 |

* Including the effective component in hedges.
** Details of the effect of hedging derivative instruments on subsections A and B.
(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 3 Non-Interest Financing Income[6]

NIS millions

### A. Non-interest financing income (expenses) in respect of non-trading activities

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| **1. From activity in derivative instruments** | | | |
| Ineffective part of hedges (see C below)[1] | **(2)** | 22 | 22 |
| Net income (expenses) in respect of ALM derivative instruments[2] | **2,314** | (986) | 519 |
| Total from activity in derivative instruments | **2,312** | (964) | 541 |
| **2. From investment in bonds** | | | |
| Gains from sale of bonds available for sale[3] | **188** | 119 | 257 |
| Losses from sale of bonds available for sale[3][4] | **(35)** | (11) | (51) |
| Total from investment in bonds | **153** | 108 | 206 |
| **3. Net exchange-rate differences** | **(1,518)** | 1,288 | (18) |
| **4. Gains (losses) from investment in shares** | | | |
| Gains from sale of shares available for sale[3][7] | **454** | 225 | 361 |
| Losses from sale of shares available for sale[3][5] | **(76)** | (78) | (71) |
| Dividend from shares available for sale | **27** | 32 | 39 |
| Total from investment in shares | **405** | 179 | 329 |
| **5. Net gains (losses) in respect of securitization transactions** | **-** | - | - |
| **6. Net gains in respect of loans sold** | **56** | 4 | 93 |
| Total non-interest financing income (expenses) in respect of non-trading activities | **1,408** | 615 | 1,151 |

(1) Excluding the effective component of hedges.
(2) Derivative instruments constituting part of the asset and liability management system of the Bank, which are not designated for hedging.
(3) Reclassified from accumulated other comprehensive income.
(4) No provisions for impairment in respect of bonds available for sale were recorded in 2018 and 2017; in 2016: approximately NIS 21 million.
(5) Including provisions for impairment in the amount of approximately NIS 71 million for the year ended December 31, 2018 (2017: approximately NIS 75 million; 2016: approximately NIS 51 million).
(6) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.
(7) In 2016, includes profit in the amount of NIS 109 million from the sale of shares of Visa.

## Note 3 Non-Interest Financing Income[3] (continued)

NIS millions

### B. Non-interest financing income in respect of trading activities*

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Net income in respect of other derivative instruments | **12** | 13 | 14 |
| Net realized and unrealized gains (losses) from adjustments to fair value of bonds held for trading[1] | **27** | 18 | (2) |
| Net realized and unrealized gains (losses) from adjustments to fair value of shares held for trading[2] | **(2)** | 6 | - |
| Dividends received from shares held for trading | **-** | - | - |
| Total non-interest financing income (expenses) in respect of trading activities** | **37** | 37 | 12 |
| Total non-interest financing income (expenses) | **1,445** | 652 | 1,163 |
| Details of non-interest financing income in respect of trading activities, by risk exposure: | | | |
| Interest rate exposure | **27** | 18 | (4) |
| Foreign currency exposure | **1** | 1 | 2 |
| Share exposure | **9** | 18 | 14 |
| Commodities and other exposure | **-** | - | - |
| Total | **37** | 37 | 12 |

### C. Ineffective part of hedges – further details***

| | | | |
|---|---|---|---|
| **1. Fair-value hedges** | | | |
| Ineffectiveness of hedges | **(3)** | (3) | 9 |
| Gain component in respect of derivative instruments excluded for the evaluation of the effectiveness of the hedge | **-** | - | - |
| **2. Cash-flow hedges** | | | |
| Ineffectiveness of hedges | **(5)** | 15 | - |
| Gain component in respect of derivative instruments excluded for the evaluation of the effectiveness of the hedge | **6** | 10 | 13 |
| Total | **(2)** | 22 | 22 |

* Includes exchange-rate differences arising from trading activity.
** With regard to interest income from investment in bonds held for trading, see Note 2.
*** For a disclosure of the net effect of hedging derivative instruments on interest income and expenses, see Note 2.
(1) Of which, the part of gains (losses) associated with bonds held for trading still held at the balance sheet date, in the amount of approximately NIS (6) million (2017: NIS 2 million; 2016: NIS 0 million).
(2) Of which, the part of gains (losses) associated with shares held for trading still held at the balance sheet date, in the amount of approximately NIS (1) million (2017: NIS 1 million; 2016: NIS 0 million).
(3) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 4 Fees by Management Approach Segment[3]

NIS millions

| | 2018 | | | | | | | | | 2017 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Retail activity | | | Business activity | | | | | | | |
| | Private customers | Small businesses | Housing loans | Commercial | Corporate | International activity | Financial management | Adjustments | Total | Total | Total |
| Account management | **471** | **288** | **-** | **45** | **46** | **31** | **39** | **-** | **920** | 943 | 972 |
| Credit cards | **219** | **54** | **-** | **7** | **2** | **-** | **-** | **-** | **282** | 269 | 289 |
| Securities activity | **462** | **33** | **-** | **10** | **76** | **12** | **59** | **89** | **741** | 761 | 837 |
| Financial product distribution fees[1] | **170** | **8** | **-** | **3** | **1** | **1** | **-** | **-** | **183** | 183 | 189 |
| Management, operations, and trust services for institutional entities[2] | **-** | **-** | **-** | **-** | **-** | **-** | **37** | **-** | **37** | 31 | 42 |
| Credit handling | **-** | **18** | **1** | **108** | **86** | **10** | **-** | **-** | **223** | 234 | 276 |
| Conversion differences | **158** | **101** | **-** | **14** | **6** | **1** | **7** | **4** | **291** | 279 | 282 |
| Foreign-trade activity | **3** | **33** | **-** | **27** | **14** | **6** | **1** | **-** | **84** | 88 | 103 |
| Net income from credit portfolio services | **5** | **-** | **15** | **-** | **13** | **-** | **-** | **-** | **33** | 38 | 39 |
| Management fees and fees from life insurance and home insurance | **-** | **-** | **45** | **-** | **-** | **-** | **-** | **-** | **45** | 45 | 44 |
| Financing transaction fees | **8** | **46** | **-** | **174** | **201** | **21** | **-** | **-** | **450** | *436 | *504 |
| Other fees | **17** | **2** | **-** | **-** | **-** | **2** | **-** | **8** | **29** | 31 | 40 |
| Total fees | **1,513** | **583** | **61** | **388** | **445** | **84** | **143** | **101** | **3,318** | *3,338 | *3,617 |

* Reclassified. Expenses in respect of insurance for Sale Law guarantees are stated as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item.

(1) Mainly mutual funds.

(2) Mainly in respect of management and operational services provided to provident funds.

(3) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 5 Other Income[2]

NIS millions

### Composition

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Income from computer services to a former consolidated company | **-** | 5 | 52 |
| Capital gains from sale of buildings and equipment | **28** | 51 | 12 |
| Others[1] | **77** | 107 | 73 |
| Total other income | **105** | 163 | 137 |

(1) Of which, a total of NIS 28 million in 2018 resulted from income from the sale of the global private banking customer asset portfolio of Bank Hapoalim Switzerland. See Note 15D.
Of which, a total of NIS 51 million in 2017 resulted from income from the sale of the global private banking customer asset portfolio of the Miami branch.
(2) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 6 Salaries and Related Expenses[3]

### Composition

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Salaries | **2,562** | 2,587 | 2,618 |
| Expense incurred from share-based payment transactions[1] | **65** | 96 | 101 |
| Other related expenses, including study funds, vacation, and sick days | **665** | 659 | 668 |
| Long-term benefits | **2** | 5 | 3 |
| National Insurance and wage tax | **648** | 683 | 698 |
| Pension expenses (including severance pay and allowances) | **151** | *173 | *139 |
| Other post-employment benefits | **4** | *6 | *12 |
| Total salaries and related expenses[2] | **4,097** | *4,209 | *4,239 |
| (1) Of which: expenses arising from transactions treated as share-based payment transactions settled in capital instruments | **14** | 11 | - |
| (2) Of which: salaries and related expenses abroad | **321** | 399 | 478 |

* Reclassification of certain actuarial cost components of employee benefits from salary expenses to other expenses. For further details, see Note 1D(3).
(3) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 7 Other Expenses[4]

NIS millions

### Composition

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Pension expenses (including severance pay and allowances), defined benefit (excluding service cost) | **270** | **288 | **212 |
| Marketing and advertising | **141** | 117 | 191 |
| Communications | **191** | 221 | 215 |
| Computers[1] | **450** | 430 | 413 |
| Office | **39** | 48 | 46 |
| Insurance | **11** | *12 | *10 |
| Professional services[2] | **784** | 320 | 390 |
| Wages and reimbursement of expenses for members of the Board of Directors | **7** | 12 | 17 |
| Training and further education | **63** | 53 | 43 |
| Fees | **195** | 161 | 144 |
| Contribution to the community | **36** | 41 | 42 |
| Provision in respect of the investigation of the Bank Group's business with American customers[3] | **1,049** | 503 | 528 |
| Others | **251** | 356 | 248 |
| Total other expenses | **3,487** | **2,562 | **2,499 |

* Reclassified. Expenses in respect of insurance for Sale Law guarantees are stated as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item.

** Pursuant to the directives of the Bank of Israel, certain actuarial cost components of employee benefits were reclassified from salary expenses to other expenses. For further details, see Note 1D(3).

(1) Excluding salaries, depreciation, and amortization.

(2) Includes expenses related to the investigation of the Bank Group's business with American customers (including payments to lawyers, other advisors, and related services; to the independent examiner appointed by the United States Department of Justice; and financing of representation of employees of the Bank Group) and the investigation regarding FIFA, in the amount of NIS 526 million (2017: NIS 89 million; 2016: NIS 170 million).

(3) Includes expenses (income) for exchange-rate differences in respect of revaluation of the provision in the amount of NIS 67 million (2017: NIS (54) million; 2016: NIS 10 million).

(4) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss)

NIS millions

### A. Composition[1]

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Current taxes: | | | |
| In respect of current year | **1,879** | 1,869 | 1,783 |
| In respect of previous years | **138** | 51 | 151 |
| Total current taxes | **2,017** | 1,920 | 1,934 |
| Additions (deductions): | | | |
| Deferred taxes: | | | |
| In respect of current year | **118** | 46 | 385 |
| In respect of previous years | **(126)** | (7) | (90) |
| Total deferred taxes | **(8)** | 39 | 295 |
| Total provision for taxes[2] | **2,009** | 1,959 | 2,229 |
| (2) Of which: provision for taxes for tax authorities overseas | **5** | 21 | 64 |

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

The above table does not include the effect of tax on other comprehensive income. With regard to the effect of tax on other comprehensive income, see Note 10.

## Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

NIS millions

### B. Reconciliation of the theoretical amount of tax for which the Bank would have been liable at the statutory tax rate, with the provision for taxes on profit, as recorded in the statement of profit and loss[1]

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Profit before taxes | **4,201** | 4,254 | 4,554 |
| Rate of tax applicable to the Bank in Israel (%) | **34.19** | 35.04 | 35.9 |
| Amount of tax based on statutory tax rate | **1,436** | 1,491 | 1,635 |
| Added (deducted) tax expenses (tax savings) in respect of: | | | |
| Income of subsidiaries abroad | **82** | 35 | 26 |
| Exempt income and income taxable at limited rates | **(40)** | (9) | (1) |
| Depreciation differences, depreciation adjustment, and capital gain | **(1)** | 3 | (4) |
| Non-deductible expenses | **378** | 222 | 249 |
| Timing differences for which deferred taxes were not recorded | **94** | 52 | 4 |
| Taxes in respect of previous years: | | | |
| Additional amounts payable in respect of problematic debts | **34** | 32 | 25 |
| Other | **(22)** | 12 | 36 |
| Income of subsidiaries in Israel | **49** | 77 | (33) |
| Translation differences in respect of consolidated companies abroad | **(1)** | 44 | 35 |
| Change in balance of deferred taxes due to change in tax rate | **-** | - | 257 |
| Provision for taxes on profit | **2,009** | 1,959 | 2,229 |

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

### C. Tax assessments

1. The Bank has final tax assessments up to and including the year 2012. A partial tax-assessment agreement has been signed with the tax authorities with respect to 2013-2015, according to which the parties have reached an understanding regarding the matters under dispute, with the exception of certain issues pertaining to the calculation of capital gains. The subsidiaries have final tax assessments up to and including the year 2013.

   During the last quarter of 2018, the Bank signed a deduction assessment agreement for 2008-2013, resolving the two disputes concerning wage tax in respect of local employees at the Bank's overseas branches and withholding at source with regard to transfers performed at the Bank's overseas branches. Pursuant to the aforesaid agreement, the Bank paid a total of NIS 40 million, and the previously issued tax assessments for these years were rescinded.

## Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

2. In December 2016, Isracard received tax assessments from the Customs and VAT Division of the Israel Tax Authority (hereinafter: the "Tax Assessment Notification"), further to a lateral sectoral audit which primarily concerned account settlement of Isracard with respect to issuer fees received from international organizations in connection with cardholders' transactions with businesses overseas, in reference to the period from 2012 to June 2016. The Tax Assessment Notification is in a total amount, in respect of all of its components, of approximately NIS 70 million, excluding interest and linkage. Isracard filed an objection to the VAT assessments on March 9, 2017. The VAT authorities rejected the objection on March 8, 2018. In the ruling regarding the objection, Isracard's arguments were essentially rejected, and in addition, the amounts of the tax assessments were updated to approximately NIS 93 million, excluding interest and linkage. The updated assessments included expansion in respect of the same matters included in the original tax assessments. Based on the opinion of legal advisors, Isracard filed an appeal statement with the District Court at the end of January 2019. To the extent that Isracard's position is not accepted by the court, Isracard will also be exposed to similar demands in respect of the period following the period of the VAT assessments. As at December 31, 2018, Isracard included a provision in its financial statements in respect of the additional period, among other matters, based on the opinion of its legal advisors. Isracard estimates the amount of the exposure in respect of which it did not include a provision in its financial statements at approximately NIS 178 million. This amount includes the amount in respect of the tax assessments and in respect of the additional period. Isracard includes a provision in its financial statements where such provision is required, and for components in respect of which, according to the opinion of its legal advisors, there is a "possible" risk of future materialization of some of the items in the tax assessment, all in accordance with the directives of the Banking Supervision Department. The Bank notified Isracard that if Isracard is obligated, in a final judicial ruling that cannot be appealed, to pay VAT for the foreign-currency fees collected from customers of the Bank for the Bank, which were transferred to the Bank in full, the Bank will bear the VAT payment in respect of these foreign-currency fees, which is estimated at a total of approximately NIS 35 million, among other matters, subject to granting of the right to the Bank to participate in proceedings pertaining to the dispute concerning the imposition of VAT on such foreign-currency fees.
3. Within the tax-assessment discussions conducted by the Bank, the Tax Assessment Officer argued that in the sale of a subsidiary classified as an authorized dealer for the purposes of value-added tax, profit tax should also be applied to distributable profits that are exempt from corporate tax under the directives of the Income Tax Ordinance. If the Tax Assessment Officer's position, as described above, is accepted, it will lead to an increase in the tax liability imposed on the Bank on sales of shares of companies classified as authorized dealers in the context of the Value Added Tax Law. As described in Note 15E to the Financial Statements, the Bank included a provision for tax in respect of the expected sale of the Isracard Group. If the position of the Tax Assessment Officer, described above, is accepted, the tax liability for the expected sale will increase by a total of approximately NIS 270 million. According to the estimates of the Bank, based on the opinion of its legal advisors, it is more likely than not that the Bank's position, pursuant to which the basis for imposition of profit tax should not include the amount of distributable profits that are exempt from corporate tax, will be accepted, and therefore, no provision for tax was included in this regard.

## Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

### D. Change in deferred taxes[1]

| | Balance as at December 31, 2017 | Changes allocated to profit and loss | Effect of change in tax rate allocated to profit and loss | Changes allocated to other comprehensive income | Changes allocated to equity | Balance as at December 31, 2018 | Average tax rate December 31, 2018 |
|---|---|---|---|---|---|---|---|
| | NIS millions | | | | | | % |
| **Deferred tax assets** | | | | | | | |
| From allowance for credit losses | 1,825 | **31** | - | - | - | **1,856** | **34.2** |
| From the provision for vacation and bonuses | 234 | **(33)** | - | - | - | **201** | **34.2** |
| From employee benefits | 1,717 | **(9)** | - | **(132)** | - | **1,576** | **34.2** |
| Losses carried forward for tax purposes | 184 | **123** | - | - | - | **307** | **26.1** |
| From securities and other monetary items | 19 | **(10)** | - | **51** | - | **60** | **24.3** |
| From intangible assets | - | **62** | - | - | - | **62** | **34.1** |
| From other non-monetary items | 11 | **34** | - | - | - | **45** | **33.3** |
| Gross balance of deferred tax assets | 3,990 | **198** | - | **(81)** | - | **4,107** | **33.2** |
| Unrecognized deferred tax assets* | 143 | **128** | - | - | - | **271** | **26.5** |
| Balance of deferred tax assets net of unrecognized deferred tax assets | 3,847 | **70** | - | **(81)** | - | **3,836** | **28.7** |
| **Deferred tax liabilities** | | | | | | | |
| From securities | 43 | **4** | - | **(41)** | - | **6** | **14.3** |
| Fixed assets and leases | 138 | **6** | - | - | - | **144** | **26.6** |
| From intangible assets | 40 | **(40)** | - | - | - | **-** | **-** |
| In respect of investments in affiliates | 146 | **92** | - | - | - | **238** | **13.2** |
| Other | 1 | **-** | - | - | - | **1** | **20.0** |
| Gross balance of deferred tax liabilities | 368 | **62** | - | **(41)** | - | **389** | **16.3** |
| Net balance of deferred tax assets** | 3,479 | **8** | - | **(40)** | - | **3,447** | **31.3** |
| * Of which: tax benefits allocated to equity | - | **-** | - | - | - | **-** | |
| ** Of which: in respect of activity overseas | 2 | **1** | - | - | - | **3** | |

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

### D. Change in deferred taxes[1] (continued)

| | Balance as at December 31, 2016 | Changes allocated to profit and loss | Effect of change in tax rate allocated to profit and loss | Changes allocated to other comprehensive income | Changes allocated to equity | Balance as at December 31, 2017 | Average tax rate December 31, 2017 |
|---|---|---|---|---|---|---|---|
| | NIS millions | | | | | | % |
| **Deferred tax assets** | | | | | | | |
| From allowance for credit losses | 1,725 | 103 | (3) | - | - | 1,825 | 34.3 |
| From the provision for vacation and bonuses | 239 | (5) | - | - | - | 234 | 34.3 |
| From employee benefits | 1,716 | (14) | 2 | 36 | (23) | 1,717 | 34.2 |
| Losses carried forward for tax purposes | 177 | 24 | (17) | - | - | 184 | 24.7 |
| From securities and other monetary items | 22 | (5) | - | 2 | - | 19 | 26.0 |
| From other non-monetary items | 8 | 3 | - | - | - | 11 | 31.7 |
| Gross balance of deferred tax assets | 3,887 | 106 | (18) | 38 | (23) | 3,990 | 33.6 |
| Unrecognized deferred tax assets | 130 | 30 | (17) | - | - | 143 | 25.2 |
| Balance of deferred tax assets net of unrecognized deferred tax assets* | 3,757 | 76 | (1) | 38 | (23) | 3,847 | 34.0 |
| **Deferred tax liabilities** | | | | | | | |
| From securities | 4 | 1 | - | 38 | - | 43 | 33.6 |
| Fixed assets and leases | 129 | 9 | - | - | - | 138 | 26.2 |
| From intangible assets | 24 | 16 | - | - | - | 40 | 34.3 |
| In respect of investments in affiliates | 59 | 87 | - | - | - | 146 | 12.9 |
| Other | - | 1 | - | - | - | 1 | 16.7 |
| Gross balance of deferred tax liabilities | 216 | 114 | - | 38 | - | 368 | 19.3 |
| Net balance of deferred tax assets** | 3,541 | (38) | (1) | - | (23) | 3,479 | 37.0 |
| * Of which: tax benefits allocated to equity | 23 | - | - | - | (23) | - | |
| ** Of which: in respect of activity overseas | 1 | (2) | - | 3 | - | 2 | |

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

### E. Legislative amendments

**Income tax**

The rate of corporate tax was 25% in 2016.

The Economic Efficiency Law (Legislative Amendments for the Achievement of Economic Policy Objectives for the Budget Year 2017) was published on December 29, 2016. The law includes an amendment of the Income Tax Ordinance (No. 234), which establishes, among other matters, a reduction of the rate of corporate tax by 1% beginning in 2017, and by an additional 1% beginning in 2018, to 24% and 23%, respectively.

**Value Added Tax Law, 1975**

The Bank is defined as a financial institution for the purposes of the Value Added Tax Law, which imposes a wage tax and a profit tax on such institutions. Profit is defined as taxable income, as defined in the Income Tax Ordinance, before offsetting losses from tax years preceding the tax year in which the income was received, and after deducting wage tax, excluding income from dividends received from a financial institution, and including income from interest, from dividends, from the sale or redemption of a unit, or from profit distribution to a unit owner for which an exemption from income tax has been granted under any law.

The rate of profit tax, beginning October 1, 2015, is 17%.

**Combined tax rates**

As a result of the changes described above, the statutory tax rate applicable to the Bank changed, as detailed in the table below.

Taxes paid on profits of banking corporations include corporate tax, pursuant to the Income Tax Ordinance, and profit tax, pursuant to the Value Added Tax Law, as explained above. Accordingly, the combined tax rates are as follows:

| | Profit tax rate | Income tax rate | Combined tax rate |
|---|---|---|---|
| **Year** | | | |
| 2016 | 17.00% | 25.00% | 35.90% |
| 2017 | 17.00% | 24.00% | 35.04% |
| 2018 forward | 17.00% | 23.00% | 34.19% |

## Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

NIS millions

### F. Unrecognized deferred tax liabilities in respect of temporary differences related to investments in subsidiaries in Israel

In accordance with the transitional directives established in the directives of the Supervisor of Banks, the Bank did not recognize a deferred tax liability in respect of certain temporary differences formed up to December 31, 2016, which are related to the Bank's investments in subsidiaries that are permanent in essence. These temporary differences may only be taxable at the time of a realization event, including dividend distribution, sale, or liquidation of any of the subsidiaries. The balance of the aforesaid temporary difference totaled approximately NIS 9,337 million as at December 31, 2016. If the Bank had been required to recognize a deferred tax liability in respect of the aforesaid undistributed profits, the amount of the liability would have been NIS 1,366 million as at December 31, 2016. Beginning January 1, 2017, the Bank recognized a deferred tax liability in respect of temporary differences related to the Bank's investments in subsidiaries.

### G. Unrecognized deferred tax liabilities in respect of temporary differences related to investments in foreign subsidiaries

The Bank did not recognize a deferred tax liability in respect of undistributed profits of a foreign subsidiary. In 2018, the cumulative amounts of the undistributed profits before tax at the aforesaid foreign subsidiary totaled approximately NIS 253 million. If the Bank had been required to recognize a deferred tax liability in respect of the aforesaid undistributed profits, the amount of the liability would have been approximately NIS 86 million as at December 31, 2018.

### H. Losses carried forward for tax purposes[1]

| | **December 31, 2018** | | | | |
|---|---|---|---|---|---|
| | Balance of losses | Deferred tax assets on losses | Unrecognized deferred tax assets | Recognized deferred tax assets | First expiration year |
| **Losses for tax purposes** | | | | | |
| Subsidiaries in Israel | **352** | **81** | **(47)** | **34** | **-** |
| Subsidiaries overseas | **825** | **226** | **(224)** | **2** | **2023** |

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Balance of losses | Deferred tax assets on losses | Unrecognized deferred tax assets | Recognized deferred tax assets | First expiration year |
| **Losses for tax purposes** | | | | | |
| Subsidiaries in Israel | 380 | 87 | (49) | 38 | - |
| Subsidiaries overseas | 364 | 97 | (94) | 3 | 2023 |

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

### I. Provision for credit losses

In February 2012, the Bank and the Tax Assessment Officer signed an agreement of principles regarding the method of recognition for tax purposes of the allowance for credit losses in respect of allowances for impaired debts recorded beginning January 1, 2011. In July 2017, an agreement of principles was signed with the Tax Assessment Officer regarding the method of recognition for tax purposes of the allowance for credit losses for debts measured according to the extent of arrears, with respect to debts the allowance for which was included in the books of the Bank beginning January 1, 2014. Principles of the agreements:

1. Allowances for individually examined impaired debts shall be deductible as an expense for tax purposes in the year in which the provision is recorded in the financial statements of the Bank. In a tax year in which the allowance for impaired debts is reduced (other than as a result of "charge-offs" or "debt forgiveness"), additional tax shall be added to the Bank's tax liability, based on the formula agreed upon in the agreement.
2. Half of the annual provision for credit losses in respect of allowances for impaired debts not examined individually shall be deductible as an expense for tax purposes in the first year after the year in which it is recorded, and half shall be deductible in the second tax year after the year in which it is recorded.
3. The annual provision for credit losses in respect of allowances measured on a collective basis is not deductible as an expense for tax purposes.
4. 65% of the increase in the annual allowance for credit losses in respect of housing loans measured according to the extent of arrears, in respect of debts the allowance for which was included in the books of the Bank beginning January 1, 2014, is not deductible.

# Note 9 Earnings per Ordinary Share[1]

## Composition

| | For the year ended December 31 | | |
|---|---|---|---|
| | **2018** | 2017 | 2016 |
| **Basic earnings** | | | |
| Net profit attributed to the ordinary shareholders of the Bank, in NIS millions | **2,595** | 2,660 | 2,628 |
| Net profit attributed to the ordinary shareholders of the Bank from continued operations, in NIS millions | **2,231** | 2,346 | 2,354 |
| **Weighted average number of ordinary shares** | | | |
| In shares of par value NIS 1 | | | |
| Balance as at January 1 of issued and paid-up share capital | **1,333,065,159** | 1,333,550,613 | 1,329,406,719 |
| Effect of RSU and option notes exercised into shares | **1,269,814** | 721,154 | 3,133,302 |
| Effect of shares purchased during the period | **(562,192)** | (803,836) | (830,738) |
| Weighted average number of ordinary shares used in the calculation of basic earnings per share as at December 31 | **1,333,772,781** | 1,333,467,931 | 1,331,709,283 |
| **Diluted earnings** | | | |
| Net profit attributed to the ordinary shareholders of the Bank, in NIS millions | **2,595** | 2,660 | 2,628 |
| Net profit attributed to the ordinary shareholders of the Bank from continued operations, in NIS millions | **2,231** | 2,346 | 2,354 |
| **Weighted average number of ordinary shares (diluted)** | | | |
| In shares of par value NIS 1 | | | |
| Weighted average number of ordinary shares used in the calculation of basic earnings per share | **1,333,772,781** | 1,333,467,931 | 1,331,709,283 |
| Effect of unexercised RSU and option notes | **2,103,931** | 2,158,892 | 3,695,071 |
| Weighted average number of ordinary shares used in the calculation of diluted earnings per share as at December 31 | **1,335,876,712** | 1,335,626,823 | 1,335,404,354 |
| **Earnings per ordinary share in NIS** | | | |
| **Basic earnings** | | | |
| Net earnings per share | **1.95** | 2.00 | 1.98 |
| Net earnings per share from continued operations[1] | **1.68** | 1.76 | 1.77 |
| **Diluted earnings** | | | |
| Net earnings per share | **1.94** | 1.99 | 1.97 |
| Net earnings per share from continued operations[1] | **1.67** | 1.75 | 1.76 |

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 10 Accumulated Other Comprehensive Income (Loss)

NIS millions

### A. Changes in accumulated other comprehensive income (loss), after tax effect[1]

| | Other comprehensive income (loss) before attribution to non-controlling interests | | | | | Other comprehensive income (loss) attributed to non-controlling interests | Other comprehensive income (loss) attributed to shareholders of the Bank |
|---|---|---|---|---|---|---|---|
| | Adjustments for presentation of securities available for sale at fair value | Net adjustments from translation* after hedge effects** | Net gains (losses) in respect of cash-flow hedges | Adjustments in respect of employee benefits | Total | | |
| Balance as at January 1, 2016 | 451 | (8) | (4) | (338) | 101 | - | 101 |
| Net change during the year | (95) | (25) | 2 | (822) | (940) | 1 | (941) |
| Balance as at January 1, 2017 | 356 | (33) | (2) | (1,160) | (839) | 1 | (840) |
| Net change during the year | 157 | (20) | 1 | (82) | 56 | 2 | 54 |
| Balance as at January 1, 2018 | **513** | **(53)** | **(1)** | **(1,242)** | **(783)** | **3** | **(786)** |
| Net change during the year | **(673)** | **16** | **-** | **249** | **(408)** | **-** | **(408)** |
| Balance as at December 31, 2018 | **(160)** | **(37)** | **(1)** | **(993)** | **(1,191)** | **3** | **(1,194)** |

* Adjustments from the translation of financial statements of a foreign operation whose functional currency differs from the functional currency of the Bank.

** Net gains (losses) in respect of net hedging of investments in foreign currency.

(1) Includes balances attributed to a discontinued operation. For details, see Note 1G.

## Note 10 Accumulated Other Comprehensive Income (Loss) (continued)

NIS millions

### B. Changes in components of accumulated other comprehensive income (loss), before and after tax effect[1]

| | For the year ended | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **December 31, 2018** | | | December 31, 2017 | | | December 31, 2016 | | |
| | Before tax | Tax effect | After tax | Before tax | Tax effect | After tax | Before tax | Tax effect | After tax |
| **Changes in components of other comprehensive income (loss) before attribution to non-controlling interests** | | | | | | | | | |
| **Adjustments for presentation of securities available for sale at fair value** | | | | | | | | | |
| Net unrealized gains (losses) from adjustments to fair value | **(495)** | **163** | **(332)** | 389 | (107) | 282 | 169 | (44) | 125 |
| (Gains) losses in respect of securities available for sale reclassified to the statement of profit and loss[2] | **(425)** | **84** | **(341)** | (177) | 52 | (125) | (329) | 109 | (220) |
| Net change during the year | **(920)** | **247** | **(673)** | 212 | (55) | 157 | (160) | 65 | (95) |
| **Adjustments from translation*** | | | | | | | | | |
| Adjustments from translation of financial statements | **51** | **-** | **51** | (65) | - | (65) | (71) | - | (71) |
| Hedges** | **(53)** | **18** | **(35)** | 69 | (24) | 45 | 69 | (23) | 46 |
| Net change during the year | **(2)** | **18** | **16** | 4 | (24) | (20) | (2) | (23) | (25) |
| **Cash-flow hedges** | | | | | | | | | |
| Net (gains) losses in respect of cash-flow hedges reclassified to the statement of profit and loss[2] | **-** | **-** | **-** | 1 | - | 1 | 4 | (2) | 2 |
| Net change during the year | **-** | **-** | **-** | 1 | - | 1 | 4 | (2) | 2 |
| **Employee benefits** | | | | | | | | | |
| Net actuarial profit (loss) for the year | **233** | **(85)** | **148** | (268) | 90 | (178) | (1,295) | 423 | (872) |
| Net (gains) losses reclassified to the statement of profit and loss[3] | **146** | **(45)** | **101** | 146 | (50) | 96 | 74 | (24) | 50 |
| Net change during the year | **379** | **(130)** | **249** | (122) | 40 | (82) | (1,221) | 399 | (822) |
| Total net change during the year | **(543)** | **135** | **(408)** | 95 | (39) | 56 | (1,379) | 439 | (940) |
| **Changes in components of other comprehensive income (loss) attributed to non-controlling interests** | | | | | | | | | |
| Total net change during the year | **-** | **-** | **-** | 2 | - | 2 | 1 | - | 1 |
| **Changes in components of other comprehensive income (loss) attributed to shareholders of the Bank** | | | | | | | | | |
| Total net change during the year | **(543)** | **135** | **(408)** | 93 | (39) | 54 | (1,380) | 439 | (941) |

* Adjustments from the translation of financial statements of a foreign operation whose functional currency differs from the functional currency of the Bank.

** Net gains (losses) in respect of net hedging of investments in foreign currency.

(1) Includes balances attributed to a discontinued operation. For details, see Note 1G.

(2) The amount before tax is reported in the statement of profit and loss, under the item "non-interest financing income." For further details, see Note 3 – Non-Interest Financing Income.

(3) The amount before tax is reported in the statement of profit and loss, under the items "salaries and related expenses" and "other expenses."

## Note 11 Cash and Deposits with Banks[1]

NIS millions

### Composition

| | December 31 | |
|---|---|---|
| | **2018** | 2017 |
| Cash and deposits with central banks | **81,240** | 79,297 |
| Deposits with commercial banks | **3,219** | 6,796 |
| Total*,** | **84,459** | 86,093 |
| * Of which: cash, deposits with banks, and deposits with central banks for an original period of up to three months | **82,217** | 82,856 |
| ** Excluding collective allowance for credit losses in the amount of | **1** | 3 |

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

**Note:**
With regard to liens, see Note 26.

## Note 12 Securities

NIS millions

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Balance sheet value | Depreciated cost | Unrecognized gains from adjustments to fair value | Unrecognized losses from adjustments to fair value | Fair value* |
| **1) Bonds held to maturity** | | | | | |
| **Bonds and debentures** | | | | | |
| Financial institutions in Israel | **398** | **398** | **3** | **-** | **401** |
| Total bonds held to maturity | **398** | **398** | **3** | **-** | **401** |

| | Balance sheet value | Depreciated cost (in shares – cost) | Accumulated other comprehensive income | | Fair value* |
|---|---|---|---|---|---|
| | | | Gains | Losses | |
| **2) Securities available for sale[3]** | | | | | |
| **Bonds and debentures** | | | | | |
| Israeli government | **26,373** | **26,335** | **98** | **(60)** | **26,373** |
| Foreign governments | **10,420** | **10,580** | **18** | **(178)** | **10,420** |
| Financial institutions in Israel | **114** | **117** | **-** | **(3)** | **114** |
| Foreign financial institutions | **8,273** | **8,355** | **11** | **(93)** | **8,273** |
| Others in Israel | **141** | **142** | **1** | **(2)** | **141** |
| Foreign others | **2,539** | **2,567** | **4** | **(32)** | **2,539** |
| Total bonds and debentures available for sale | **47,860** | **48,096** | **132** | **(368)** | **47,860** |
| **Shares** | | | | | |
| Others | **1,480** | **1,522** | **13** | **(55)** | **[1]1,480** |
| Total securities available for sale | **49,340** | **49,618** | **[2]145** | **[2](423)** | **[1]49,340** |

* Fair-value data are usually based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.

(1) Including shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 1,020 million.

(2) Included in equity in the item "adjustments for presentation of securities available for sale at fair value" within other comprehensive income.

(3) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

**Notes:**

A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.

B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

## Note 12 Securities (continued)

NIS millions

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Balance sheet value | Depreciated cost (in shares – cost) | Unrealized gains from adjustments to fair value | Unrealized losses from adjustments to fair value | Fair value* |
| **3) Securities held for trading** | | | | | |
| **Bonds and debentures** | | | | | |
| Israeli government | **6,266** | **6,274** | **2** | **(10)** | **6,266** |
| Foreign governments | **69** | **68** | **1** | **-** | **69** |
| Foreign others | **2** | **2** | **-** | **-** | **2** |
| Total bonds and debentures held for trading | **6,337** | **6,344** | **3** | **(10)** | **6,337** |
| **Shares** | | | | | |
| Others | **41** | **45** | **-** | **(4)** | **41** |
| Total securities held for trading | **6,378** | **6,389** | **(2)3** | **(2)(14)** | **6,378** |
| Total securities(3) | **56,116** | **56,405** | **151** | **(437)** | **(1)56,119** |

| | December 31, 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Less than 12 months | | | | 12 months or more | | | |
| | Fair value | Unrealized losses | | Total | Fair value | Unrealized losses | | Total |
| | | 0-20% | 20-40% | | | 0-20% | 20-40% | |
| **4) Fair value and unrealized losses, by duration and rate of impairment, of securities available for sale in an unrealized loss position** | | | | | | | | |
| **Bonds and debentures** | | | | | | | | |
| Israeli government | **17,793** | **(60)** | **-** | **(60)** | **-** | **-** | **-** | **-** |
| Foreign governments | **304** | **(1)** | **-** | **(1)** | **8,780** | **(177)** | **-** | **(177)** |
| Financial institutions in Israel | **114** | **(3)** | **-** | **(3)** | **-** | **-** | **-** | **-** |
| Foreign financial institutions | **3,141** | **(42)** | **-** | **(42)** | **3,252** | **(51)** | **-** | **(51)** |
| Others in Israel | **18** | **(1)** | **-** | **(1)** | **20** | **(1)** | **-** | **(1)** |
| Foreign others | **1,508** | **(27)** | **-** | **(27)** | **402** | **(5)** | **-** | **(5)** |
| Total bonds and debentures available for sale | **22,878** | **(134)** | **-** | **(134)** | **12,454** | **(234)** | **-** | **(234)** |
| **Shares** | | | | | | | | |
| Others | **1,080** | **(40)** | **(15)** | **(55)** | **-** | **-** | **-** | **-** |
| Total securities available for sale | **23,958** | **(174)** | **(15)** | **(189)** | **12,454** | **(234)** | **-** | **(234)** |

* Fair-value data are usually based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.
(1) Including shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 1,020 million.
(2) Charged to the statement of profit and loss.
(3) Of which: securities in the amount of approximately NIS 3.8 billion were pledged to lenders. See Note 26.

**Notes:**
A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.
B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

## Note 12 Securities (continued)

NIS millions

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Balance sheet value | Depreciated cost | Unrecognized gains from adjustments to fair value | Unrecognized losses from adjustments to fair value | Fair value* |
| **1) Bonds held to maturity** | | | | | |
| **Bonds and debentures** | | | | | |
| Financial institutions in Israel | 423 | 423 | 5 | - | 428 |
| Total bonds held to maturity | 423 | 423 | 5 | - | 428 |

| | Balance sheet value | Depreciated cost (in shares – cost) | Accumulated other comprehensive income | | Fair value* |
|---|---|---|---|---|---|
| | | | Gains | Losses | |
| **2) Securities available for sale[3]** | | | | | |
| **Bonds and debentures** | | | | | |
| Israeli government | 35,528 | 35,193 | 335 | - | 35,528 |
| Foreign governments | 13,097 | 13,233 | 14 | (150) | 13,097 |
| Financial institutions in Israel | 73 | 68 | 5 | - | 73 |
| Foreign financial institutions | 6,327 | 6,298 | 47 | (18) | 6,327 |
| Others in Israel | 402 | 396 | 8 | (2) | 402 |
| Foreign others | 2,223 | 2,194 | 34 | (5) | 2,223 |
| Total bonds and debentures available for sale | 57,650 | 57,382 | 443 | (175) | 57,650 |
| **Shares** | | | | | |
| Others | 2,133 | 1,753 | 392 | (12) | [1]2,133 |
| Total securities available for sale | 59,783 | 59,135 | [2]835 | [2](187) | [1]59,783 |

* Fair-value data are usually based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.

(1) Including shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 848 million.

(2) Included in equity in the item "adjustments for presentation of securities available for sale at fair value" within other comprehensive income.

(3) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

**Notes:**

A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.

B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

## Note 12 Securities (continued)

NIS millions

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Balance sheet value | Depreciated cost (in shares – cost) | Unrealized gains from adjustments to fair value | Unrealized losses from adjustments to fair value | Fair value* |
| **3) Securities held for trading** | | | | | |
| **Bonds and debentures** | | | | | |
| Israeli government | 5,069 | 5,066 | 3 | - | 5,069 |
| Foreign governments | 71 | 70 | 1 | - | 71 |
| Foreign others | 3 | 3 | - | - | 3 |
| Total bonds and debentures held for trading | 5,143 | 5,139 | 4 | - | 5,143 |
| **Shares** | | | | | |
| Others | 67 | 70 | - | (3) | 67 |
| Total securities held for trading | 5,210 | 5,209 | (2)4 | (2)(3) | 5,210 |
| Total securities(3) | 65,416 | 64,767 | 844 | (190) | (1)65,421 |

| | December 31, 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Less than 12 months | | | | 12 months or more | | | |
| | Fair value | Unrealized losses | | Total | Fair value | Unrealized losses | | Total |
| | | 0-20% | 20-40% | | | 0-20% | 20-40% | |
| **4) Fair value and unrealized losses, by duration and rate of impairment, of securities available for sale in an unrealized loss position** | | | | | | | | |
| **Bonds and debentures** | | | | | | | | |
| Foreign governments | 9,085 | (72) | - | (72) | 3,184 | (78) | - | (78) |
| Foreign financial institutions | 2,029 | (8) | - | (8) | 784 | (10) | - | (10) |
| Others in Israel | 86 | (1) | - | (1) | 50 | (1) | - | (1) |
| Foreign others | 218 | (2) | - | (2) | 378 | (3) | - | (3) |
| Total bonds and debentures available for sale | 11,418 | (83) | - | (83) | 4,396 | (92) | - | (92) |
| **Shares** | | | | | | | | |
| Others | 702 | (12) | - | (12) | - | - | - | - |
| Total securities available for sale | 12,120 | (95) | - | (95) | 4,396 | (92) | - | (92) |

* Fair-value data are usually based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.
(1) Including shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 848 million.
(2) Charged to the statement of profit and loss.
(3) Of which: securities in the amount of approximately NIS 4.3 billion were pledged to lenders. See Note 26.

**Notes:**
A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.
B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

## Note 13 Credit Risk, Credit to the Public, and Allowance for Credit Losses[4]

NIS millions

### 1. Debts*, credit to the public, and allowance for credit losses

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | Banks and governments | Total |
| | Commercial** | Housing | Other private | Total | | |
| **Recorded debt balance** | | | | | | |
| Debts examined on an individual basis | **134,459** | **-** | **962** | **135,421** | **16,526** | **151,947** |
| Debts examined on a collective basis[1] | **38,258** | **70,410** | **42,176** | **150,844** | **-** | **150,844** |
| (1) Of which: allowance for which was calculated according to the extent of arrears | **11,044** | **70,217** | **-** | **81,261** | **-** | **81,261** |
| Total[2] | **172,717** | **70,410** | **43,138** | **286,265** | **16,526** | **302,791** |
| (2) Of which: | | | | | | |
| Debts in restructuring | **676** | **-** | **624** | **1,300** | **-** | **1,300** |
| Other impaired debts | **1,339** | **-** | **82** | **1,421** | **-** | **1,421** |
| Total impaired debts | **2,015** | **-** | **706** | **2,721** | **-** | **2,721** |
| Debts in arrears of 90 days or more | **172** | **529** | **107** | **808** | **-** | **808** |
| Other problematic debts | **2,997** | **-** | **71** | **3,068** | **-** | **3,068** |
| Total problematic debts | **5,184** | **529** | **884** | **6,597** | **-** | **6,597** |
| **Allowance for credit losses in respect of debts** | | | | | | |
| In respect of debts examined on an individual basis | **2,040** | **-** | **159** | **2,199** | **8** | **2,207** |
| In respect of debts examined on a collective basis[3] | **481** | **368** | **710** | **1,559** | **-** | **1,559** |
| (3) Of which: allowance for which was calculated according to the extent of arrears*** | **56** | **368** | **-** | **424** | **-** | **424** |
| Total allowance for credit losses | **2,521** | **368** | **869** | **3,758** | **8** | **3,766** |
| Of which: allowance in respect of impaired debts | **408** | **-** | **163** | **571** | **-** | **571** |

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 11,044 million, of commercial borrowers, or granted to purchasing groups in the process of construction (December 31, 2017: NIS 9,345 million).

*** Includes the allowance beyond the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 284 million (December 31, 2017: NIS 259 million).

(4) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 13 Credit Risk, Credit to the Public, and Allowance for Credit Losses[4] (continued)

NIS millions

### 1. Debts*, credit to the public, and allowance for credit losses (continued)

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | Banks and governments | Total |
| | Commercial** | Housing | Other private | Total | | |
| **Recorded debt balance** | | | | | | |
| Debts examined on an individual basis | 121,369 | - | 1,449 | 122,818 | 26,382 | 149,200 |
| Debts examined on a collective basis[1] | 37,331 | 65,176 | 44,180 | 146,687 | - | 146,687 |
| (1) Of which: allowance for which was calculated according to the extent of arrears | 9,345 | 64,940 | - | 74,285 | - | 74,285 |
| Total[2] | 158,700 | 65,176 | 45,629 | 269,505 | 26,382 | 295,887 |
| (2) Of which: | | | | | | |
| Debts in restructuring | 672 | - | 636 | 1,308 | - | 1,308 |
| Other impaired debts | 1,206 | - | 113 | 1,319 | - | 1,319 |
| Total impaired debts | 1,878 | - | 749 | 2,627 | - | 2,627 |
| Debts in arrears of 90 days or more | 222 | 594 | 97 | 913 | - | 913 |
| Other problematic debts | 2,824 | 3 | 13 | 2,840 | - | 2,840 |
| Total problematic debts | 4,924 | 597 | 859 | 6,380 | - | 6,380 |
| **Allowance for credit losses in respect of debts** | | | | | | |
| In respect of debts examined on an individual basis | 1,935 | - | 227 | 2,162 | 6 | 2,168 |
| In respect of debts examined on a collective basis[3] | 492 | 333 | 665 | 1,490 | - | 1,490 |
| (3) Of which: allowance for which was calculated according to the extent of arrears*** | 64 | 333 | - | 397 | - | 397 |
| Total allowance for credit losses | 2,427 | 333 | 892 | 3,652 | 6 | 3,658 |
| Of which: allowance in respect of impaired debts | 306 | - | 226 | 532 | - | 532 |

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 11,044 million, of commercial borrowers, or granted to purchasing groups in the process of construction (December 31, 2017: NIS 9,345 million).

*** Includes the allowance beyond the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 284 million (December 31, 2017: NIS 259 million).

(4) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 13 Credit Risk, Credit to the Public, and Allowance for Credit Losses[1] (continued)

NIS millions

### 2. Change in allowance for credit losses*

| | Credit to the public | | | | Banks and governments | Total |
|---|---|---|---|---|---|---|
| | Commercial | Housing | Other private | Total | | |
| Allowance for credit losses as at January 1, 2016 | 3,812 | 392 | 730 | 4,934 | 3 | 4,937 |
| Provision (income) for credit losses | (224) | (5) | 406 | 177 | 4 | 181 |
| Charge-offs | (902) | (21) | (652) | (1,575) | - | (1,575) |
| Recoveries of debts charged off in previous years | 774 | - | 311 | 1,085 | - | 1,085 |
| Net charge-offs | (128) | (21) | (341) | (490) | - | (490) |
| Adjustments from translation of financial statements | - | - | (1) | (1) | - | (1) |
| Allowance for credit losses as at December 31, 2016 | 3,460 | 366 | 794 | 4,620 | 7 | 4,627 |
| Provision (income) for credit losses | (333) | (14) | 549 | 202 | - | 202 |
| Charge-offs | (1,178) | (25) | (718) | (1,921) | - | (1,921) |
| Recoveries of debts charged off in previous years | 1,037 | 6 | 317 | 1,360 | - | 1,360 |
| Net charge-offs | (141) | (19) | (401) | (561) | - | (561) |
| Adjustments from translation of financial statements | - | - | (2) | (2) | - | (2) |
| Allowance for credit losses as at December 31, 2017 | 2,986 | 333 | 940 | 4,259 | 7 | 4,266 |
| Provision for credit losses | **114** | **40** | **457** | **611** | **2** | **613** |
| Charge-offs | **(801)** | **(8)** | **(821)** | **(1,630)** | **-** | **(1,630)** |
| Recoveries of debts charged off in previous years | **754** | **3** | **325** | **1,082** | **-** | **1,082** |
| Net charge-offs | **(47)** | **(5)** | **(496)** | **(548)** | **-** | **(548)** |
| Adjustments from translation of financial statements | **-** | **-** | **3** | **3** | **-** | **3** |
| Allowance for credit losses as at December 31, 2018 | **3,053** | **368** | **904** | **4,325** | **9** | **4,334** |
| Of which: in respect of off-balance sheet credit instruments | | | | | | |
| December 31, 2016 | 621 | - | 36 | 657 | - | 657 |
| December 31, 2017 | 559 | - | 48 | 607 | 1 | 608 |
| December 31, 2018 | **532** | **-** | **35** | **567** | **1** | **568** |

* With regard to the policy of the Bank on this subject, see Note 1E to the Financial Statements.

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 14 Credit to Governments

NIS millions

### Composition

| | December 31 | |
|---|---|---|
| | **2018** | 2017 |
| Credit to the government of Israel | **1,092** | 998 |
| Credit to foreign governments | **1,336** | 1,294 |
| Total credit to governments* | **2,428** | 2,292 |
| * Excluding collective allowance for credit losses in the amount of | **7** | 3 |

## Note 15 Investments in Affiliates and Information Regarding the Affiliates*

### A. Composition

| | **2018** | 2017 |
|---|---|---|
| | Equity-basis investees | |
| Investments in shares stated on an equity basis | **92** | 143 |
| **Other investments** | | |
| Investment in owner loans | **11** | 55 |
| Total investments | **103** | 198 |
| Of which: | | |
| Accrued post-acquisition profits, net | **38** | 131 |
| **Details of the book value and market value of marketable investments** | | |
| Book value | **36** | 22 |
| Market value | **40** | 48 |

### B. Share in profits of equity-basis investees, net

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| The Bank's share in net profits of equity-basis investees | **4** | 17 | 12 |

* For further details, see Note 1G.

## Note 15 Investments in Affiliates and Information Regarding the Affiliates (continued)

NIS millions

### C. Details of principal affiliates

| | Share in voting rights and in right to receive profits | | Investment in shares on an equity basis | | Other capital investments | | Contribution to net profit attributed to shareholders of the Bank | | Dividend recorded | | Other items accrued in equity[2] | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | December 31 | | | | | | | | | | | |
| | **2018** | 2017 | **2018** | 2017[1] | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| **Consolidated companies** | | | | | | | | | | | | |
| **Bank Hapoalim (Switzerland) Ltd.,** a commercial bank in Switzerland[3] | **100%** | 100% | **(88)** | 862 | **-** | - | **(1,181)** | (334) | **-** | - | **231** | (73) |
| **Bank Pozitif Kredi ve Kalkinma Bankasi A.S.,** a commercial bank in Turkey[4] | **69.8%** | 69.8% | **132** | 215 | **-** | - | **(84)** | (78) | **-** | - | **1** | 3 |
| **Isracard Ltd.,** credit-card services[5] | **98.2%** | 98.2% | **2,960** | 2,648 | **-** | - | **311** | 267 | **-** | (226) | **1** | (9) |
| **Poalim Express Ltd.[5]** | **100%** | 100% | **471** | 416 | **-** | - | **55** | 47 | **-** | (10) | **-** | - |
| **Poalim Capital Markets – Investment House Ltd.** | **100%** | 100% | **952** | 909 | **-** | - | **34** | 25 | **-** | - | **9** | - |
| **Diur B. P. Ltd.,** asset management | **100%** | 100% | **309** | 635 | **-** | - | **24** | 18 | **(350)** | - | **-** | (1) |
| **Tarshish Holdings and Investments Poalim Ltd.,** financial company | **100%** | 100% | **4,652** | 4,729 | **-** | - | **102** | 92 | **-** | - | **(179)** | (23) |
| **Opaz Ltd.,** investments and holdings | **100%** | 100% | **1,410** | 1,409 | **-** | - | **4** | - | **-** | - | **(3)** | - |
| **Continental Poalim Ltd.,** financial company | **100%** | 100% | **528** | 527 | **-** | - | **1** | 1 | **-** | - | **-** | - |
| **Hapoalim Nechasim (Menayot) Ltd.,** holding company | **100%** | 100% | **654** | 1,279 | **-** | - | **171** | 20 | **(680)** | - | **(116)** | 60 |
| **Poalim Sahar Ltd.,** securities operation and trading | **100%** | 100% | **324** | 315 | **250** | 250 | **9** | 7 | **-** | - | **-** | - |
| **Zohar Hashemesh Investments Ltd.** | **100%** | 100% | **813** | 811 | **850** | 850 | **12** | 1 | **-** | - | **(10)** | 8 |

(1) Reclassified.
(2) Including adjustments in respect of the presentation of certain securities of affiliates at fair value.
(3) See Note 15D below.
(4) The Bank is examining possibilities for the sale of its full holdings in Bank Pozitif, further to the Bank's strategic plan, in which a decision was made to gradually reduce the credit portfolio at Bank Pozitif.
(5) See Note 15E below.

## Note 15 Investments in Affiliates and Information Regarding the Affiliates (continued)

### D. Hapoalim Switzerland

In September 2017, the Bank decided to act to discontinue the activity of Hapoalim Switzerland, through the sale of its assets or by other means. The resolution was passed in view of the Bank's risk-management policy, which aims to minimize compliance risks in the Bank Group, including such risks as emerged in connection with the investigation by the United States authorities, and in view of the changes in the global regulatory environment and their effect on such risks. The Bank also decided to discontinue the activity of Poalim Asset Management (PAM). As part of the realization of the decision to discontinue the activity of Hapoalim Switzerland, a transaction was completed in the fourth quarter of 2018 for the sale of most of the global private banking customer asset portfolio of Hapoalim Switzerland at its branches in Switzerland and Luxembourg to Bank J. Safra Sarasin AG and Banque Safra Sarasin (Luxembourg) SA (jointly, "Safra Sarasin"). As part of the transaction, indemnity arrangements were agreed upon, pursuant to which, among other matters, Hapoalim Switzerland will indemnify Safra Sarasin for payments and expenses of the purchaser in connection with legal proceedings and investigations of government agencies arising from events preceding the completion of the transaction. The Bank is a guarantor for the commitments of Hapoalim Switzerland towards the purchaser. The consideration in respect of the transaction is approximately CHF 20 million (the consideration may be adjusted in the future, in the event that several scenarios in connection with the transferred clients materialize). The profit included in the annual statements for 2018 in respect of the recognizable part of the consideration stands at approximately CHF 8 million; the remainder will be recognized in the following years.

Poalim Asset Management (PAM) ended its activity in September 2018.

Following the loss that resulted from the aforesaid provision, which the authorized organs of Hapoalim Switzerland only decided upon in March 2019, and in order for Hapoalim Switzerland to comply with the regulatory capital-adequacy ratio required in Switzerland and avoid being in violation of this requirement, the Bank invested CHF 250 million in the capital of Hapoalim Switzerland in the first quarter of 2019, immediately upon receiving the approval of the Banking Supervision Department for such increase in the investment.

### E. Isracard Group

#### 1. Poalim Express sale transaction

Poalim Express Ltd. ("Poalim Express") is a private company fully held by the Bank, which is the exclusive issuer and clearer of American Express credit cards in Israel. As part of the reorganization performed by the Bank in preparation for the offering of Isracard Ltd. ("Isracard"), on February 25, 2019, Isracard acquired the full holdings of the Bank in the shares of Poalim Express from the Bank, based on the balance sheet value of Poalim Express in the books of the Bank as at September 30, 2018, in the amount of NIS 456 million. The agreement states that the sale of the shares is based on the condition of Poalim Express as is. In addition, in all matters related or pertaining to the condition of the business of Poalim Express, its activity, its assets, or its liabilities up to the date of the acquisition (the "Poalim Express Activity"), the agreement contains a stipulation of mutual waiver with regard to claims of Isracard, the Bank, and Poalim Express, under the conditions specified in the agreement, and an obligation of Isracard to indemnify the Bank in respect of a peremptory verdict against it in connection with a claim in respect of Poalim Express, all subject to the terms specified in the agreement. On March 3, 2019, following compliance with the conditional terms and receipt of the approval of the Bank of Israel, the transaction for the sale of Poalim Express was completed and the ownership of the shares of Poalim Express was transferred to Isracard. The sale transaction will be treated as a business combination under common control.

## Note 15 Investments in Affiliates and Information Regarding the Affiliates (continued)

**2. Separation from the Isracard Group**

The Bank is preparing for the separation of the Isracard Group from the Bank, as required pursuant to the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments), 2017. Within this process, the Bank examined several possibilities for the transfer of the Bank's holdings in the Isracard Group, including sale of its holdings in the Isracard Group to an investor or group of investors; a sale offering to the public of its holdings in the Isracard Group; and distribution of a dividend in kind of the holdings in the Isracard Group to the shareholders of the Bank. On March 7, 2019, the Board of Directors of the Bank resolved to promote the course of separation from Isracard through a sale offering to the public and listing of the shares of Isracard on the Tel Aviv Stock Exchange Ltd. (the "TASE"), and approved submission of a sale offering prospectus for shares of Isracard, which also constitutes a shelf prospectus of Isracard (the "Prospectus"), to the Israel Securities Authority. The Israel Securities Authority granted permission to publish the Prospectus on the same day. Isracard published the Prospectus on March 10, 2019. The final determination regarding the volume and terms of the sale offering (including the price) will be made within a supplementary announcement, to be published. Performance of the sale offering, including the date, volume, and price, is subject to the discretion of the Bank, and will be determined after the date of publication of the Annual Financial Statements for 2018.

Following completion of the sale offering pursuant to the prospectus, the Bank will continue to prepare for completion of the separation of Isracard from the Bank, as required by the Strum Law, based on several possible alternatives, including: a sale of shares constituting a controlling core of Isracard; a private sale without a controlling core; a public offering of the Bank's shares in Isracard to Israeli or foreign investors; distribution of shares or of options to purchase the shares in the form of a dividend in kind; sale on the stock exchange (subject to the blockage rules of the stock exchange, as they may be from time to time); or a combination of any of the foregoing alternatives. At this time, there is no certainty with regard to the manner and timing in which the Bank will choose to complete the separation.

In preparation for the separation, and for the conversion of Isracard into a public company, various preparatory measures were taken shortly before the approval of the Prospectus, including the transfer of the full holdings of the Bank in Poalim Express to Isracard, as noted above; an update of the operational agreements of the Bank with Isracard and Poalim Express; declaration by the board of directors of Isracard of the distribution of a dividend in a total amount of NIS 867 million (the share of the Bank is NIS 851 million); acquisition of a common POSI insurance policy for the Bank and Isracard to cover liability in connection with the Prospectus; and approval of a trajectory for the payment of a separation bonus to the employees and officers of Isracard, which is contingent upon completion of the sale offering and the terms thereof.

For further details regarding the presentation of the Isracard Group as a discontinued operation, see Note 1G above.

For details regarding contractual engagements in issuance and operation agreements with credit-card companies, see Note 25G below.

## Note 16 Buildings and Equipment

NIS millions

### A. Composition*

| | Buildings and land (including installations and improvements to rented properties) | Equipment, including computers, furniture, and vehicles | Software[1] | Total |
|---|---|---|---|---|
| **Cost of assets** | | | | |
| Balance as at December 31, 2016 | 4,049 | 2,150 | 3,859 | 10,058 |
| Additions | 102 | 139 | 340 | 581 |
| Subtractions | (70) | (64) | (49) | (183) |
| Adjustments from translation of financial statements | - | (7) | (6) | (13) |
| Balance as at December 31, 2017 | 4,081 | 2,218 | 4,144 | 10,443 |
| Additions | **113** | **119** | **326** | **558** |
| Subtractions | **(117)** | **(25)** | **(22)** | **(164)** |
| Adjustments from translation of financial statements | **-** | **8** | **7** | **15** |
| Balance as at December 31, 2018** | **4,077** | **2,320** | **4,455** | **10,852** |
| **Depreciation and losses from impairment** | | | | |
| Balance as at December 31, 2016 | 2,240 | 1,661 | 3,060 | 6,961 |
| Annual depreciation | 128 | 125 | 255 | 508 |
| Loss from impairment | - | 1 | 15 | 16 |
| Subtractions | (41) | (64) | (49) | (154) |
| Adjustments from translation of financial statements | - | (6) | (5) | (11) |
| Balance as at December 31, 2017 | 2,327 | 1,717 | 3,276 | 7,320 |
| Annual depreciation | **137** | **137** | **263** | **537** |
| Loss from impairment | **3** | **4** | **7** | **14** |
| Subtractions | **(97)** | **(24)** | **(23)** | **(144)** |
| Adjustments from translation of financial statements | **-** | **7** | **7** | **14** |
| Balance as at December 31, 2018 | **2,370** | **1,841** | **3,530** | **7,741** |
| **Book value** | | | | |
| Balance as at December 31, 2016 | 1,809 | 489 | 799 | 3,097 |
| Balance as at December 31, 2017 | 1,754 | 501 | 868 | 3,123 |
| Balance as at December 31, 2018 | **1,707** | **479** | **925** | **3,111** |
| Weighted average depreciation rate, in %, as at December 31, 2017 | 4.3 | 13.6 | 20.0 | |
| Weighted average depreciation rate, in %, as at December 31, 2018 | **4.4** | **13.3** | **20.0** | |

* Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

** Balance of fully depreciated assets included in balance of cost of assets:
Buildings and land, including installations and improvements to rented properties: NIS 1,379 million.
Equipment, including computers, furniture, and vehicles: NIS 1,284 million; software costs: NIS 3,187 million.

(1) Of which: capitalized costs of software developed in-house with a net balance sheet balance in the amount of NIS 784 million (December 31, 2017: NIS 813 million; December 31, 2016: NIS 736 million).

## Note 16 Buildings and Equipment (continued)

**B.** Additional details regarding depreciation:

The depreciation method and the main depreciation rates implemented by the Bank for the various groups of assets are set out below.

Buildings – 2% per year in a straight line.

Land leased from the Israel Land Administration – according to the term of the lease.

Installations and improvements to rental properties – according to the rental period, taking into consideration the Bank's intention to exercise the option to extend the rental period, if such an option exists.

Computers – 20% per year in a straight line.

Office equipment and furniture – 6-15% per year in a straight line.

Software – 20% per year in a straight line.

**C.** The Bank holds rights in the form of rental or leases in buildings and equipment, for a period not exceeding 49 years from the balance sheet date, in the amount of NIS 144 million (December 31, 2017: NIS 137 million).

**D.** The balance sheet balance of buildings available for sale, in the amount of NIS 8 million (December 31, 2017: NIS 19 million), is presented after deduction of the provision for impairment. No loss is expected from the realization of the buildings available for sale, beyond the provisions recorded in respect thereof. In addition, the balance sheet balance of buildings sold, possession of which has not yet been transferred, is in the amount of NIS 2 million.

**E.** Rights to land in the amount of NIS 28 million (December 31, 2017: NIS 66 million) have not yet been recorded at the Israel Land Registry Bureau, mainly due to delays in the unification of lots, or the rights are in the process of being recorded.

**F.** The balance sheet balance of buildings not in use by the Bank, mainly rented buildings, totaled NIS 35 million (December 31, 2017: NIS 30 million), representing investment property rented to others, in both periods.

## Note 17 Other Assets

NIS millions

### Composition[2]

| | December 31 | |
|---|---|---|
| | **2018** | 2017 |
| Deferred tax assets, net* | **3,512** | 3,547 |
| Current taxes – excess of advances paid over current liability for income tax | **75** | 84 |
| Assets received in respect of credit settled | **66** | 66 |
| Expenses for issuance of bonds and subordinated notes | **47** | 57 |
| Income receivable | **218** | 237 |
| Prepaid expenses** | **285** | 223 |
| Assets in respect of activity in the Maof market[1] | **1,010** | 617 |
| Other receivables and debit balances | **637** | 492 |
| Total other assets | **5,850** | 5,323 |

* See also Note 8D.
** Includes prepaid expenses in the amount of NIS 16 million in respect of operating leases in which the Bank is the lessee (2017: NIS 16 million).
(1) Stated at fair value.
(2) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 18 Deposits from the Public

NIS millions

### A. Types of deposits, by location of deposit taking and by type of depositor[1]

| | December 31 | |
|---|---|---|
| | **2018** | 2017 |
| **In Israel** | | |
| On demand | | |
| Non-interest bearing | **134,527** | 125,952 |
| Interest bearing | **90,919** | 89,075 |
| Total on demand | **225,446** | 215,027 |
| Fixed term | **107,694** | 113,608 |
| Total deposits from the public in Israel* | **333,140** | 328,635 |
| **Outside Israel** | | |
| On demand | | |
| Non-interest bearing | **2,116** | 3,575 |
| Interest bearing | **3,902** | 4,640 |
| Total on demand | **6,018** | 8,215 |
| Fixed term | **13,102** | 10,494 |
| Total deposits from the public outside Israel | **19,120** | 18,709 |
| Total deposits from the public | **352,260** | 347,344 |
| * Of which: | | |
| Deposits of private individuals | **168,932** | 157,688 |
| Deposits of institutional entities | **43,402** | 56,173 |
| Deposits of corporations and others | **120,806** | 114,774 |

### B. Deposits from the public by size[1]

| | December 31 | |
|---|---|---|
| | **2018** | 2017 |
| **Deposit ceiling** | | |
| Up to 1 | **124,117** | 117,250 |
| Over 1 up to 10 | **89,745** | 81,942 |
| Over 10 up to 100 | **52,811** | 52,425 |
| Over 100 up to 500 | **33,202** | 35,600 |
| Over 500 | **52,385** | 60,127 |
| Total | **352,260** | 347,344 |

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 19 Deposits from Banks

NIS millions

### Composition[1]

| | December 31 | |
|---|---|---|
| | **2018** | 2017 |
| **In Israel** | | |
| **Commercial banks** | | |
| On-demand deposits | **2,861** | 2,414 |
| Fixed-term deposits | **161** | 136 |
| Acceptances | **526** | 417 |
| **Outside Israel** | | |
| **Commercial banks** | | |
| On-demand deposits | **3** | 205 |
| Fixed-term deposits | **256** | 160 |
| Acceptances | **28** | - |
| **Central banks** | | |
| Fixed-term deposits | **693** | 317 |
| Total deposits from banks | **4,528** | 3,649 |

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

# Note 20 Bonds and Subordinated Notes

## A. Composition

| | December 31 | | | |
|---|---|---|---|---|
| | **2018** | | | 2017 |
| | Average duration[1] | Internal rate of return[2] | NIS millions | |
| **Bonds and subordinated notes not convertible into shares** | | | | |
| **In Israeli currency[3]** | | | | |
| Unlinked | **1.2** | **5.7%** | **1,857** | 3,398 |
| CPI-linked | **3.2** | **1.7%** | **24,643** | 21,400 |
| **In foreign currency[4]** | | | | |
| USD | **0.9** | **4.4%** | **339** | 937 |
| Other | **1.0** | **2.8%** | **32** | 143 |
| **Bonds and subordinated notes convertible into shares** | | | | |
| **In Israeli currency[3]** | | | | |
| CPI-linked | **2.0** | **5.9%** | ****3,153** | 3,180 |
| Total bonds and subordinated notes* | **2.9** | **2.4%** | **30,024** | 29,058 |
| Of which: Subordinated notes | | | | |
| Included in Tier 1 capital | | | **977** | 1,221 |
| Included in Tier 2 capital | | | **6,131** | 6,028 |
| Others not included in capital | | | **8,263** | 7,571 |
| Total subordinated notes | **2.7** | **3.7%** | **15,371** | 14,820 |

* According to the terms of the issue, under certain circumstances, the bonds are eligible for early redemption.

** The Bank carried out full early redemption of the subordinated notes in Series B (non-tradable), the balance of which as at December 31, 2018, totaled NIS 582 million, after the date of the financial statements, in February 2019.
In order to guarantee bonds issued by consolidated companies, liens were recorded on the companies' assets. For further details, see Note 26 below.

(1) The average duration is the average maturity period, weighted by the cash flow discounted at the internal rate of return.

(2) The internal rate of return is the interest rate that discounts the expected flow of payments to the balance sheet balance included in the financial statements.

(3) Of which: listed on the Tel-Aviv Stock Exchange in the amount of NIS 26,501 million (December 31, 2017: NIS 24,798 million), and the remaining amount not listed.

(4) The balance of bonds listed on the stock exchange overseas was settled in 2018 (December 31, 2017: NIS 587 million), and the remaining amount is not listed.

## Note 20 Bonds and Subordinated Notes (continued)

### B. Additional details regarding subordinated notes

(1) Subordinated capital notes (Series B) issued in February 2004 and subordinated capital notes (Series C) issued in November 2007 and September 2008 for a period of 99 years, which can be redeemed early beginning in the fifteenth year from their issue. Subordinated capital notes (Series D) issued in September 2009 for a period of 49 years, which can be redeemed early beginning in the tenth year from their issue. In accordance with the terms of the issue, when certain events occur, the capital notes will be converted to ordinary shares of the Bank. The subordinated capital notes have been approved by the Banking Supervision Department as "hybrid capital instruments" that are included in the Bank's Tier 1 capital.

(2) Subordinated capital notes Series 1 issued in June 2009 for a period of 50 years, which can be redeemed early beginning in the eleventh year from their issue. The subordinated capital notes have been approved by the Banking Supervision Department as "hybrid capital instruments" included in the Bank's Tier 2 capital. The aforementioned capital notes are listed for trading on the Tel Aviv Stock Exchange.

(3) Issuance of subordinated notes with a loss-absorption mechanism – Hapoalim Hanpakot (a wholly owned subsidiary that serves as the issuance arm of the Bank) performed a private offering for institutional investors, in April 2018, of CPI-linked subordinated notes (Series R), bearing annual interest at a rate of 1.42% from the date of listing on the stock exchange, with principal in a total amount of approximately NIS 1.1 billion, maturing in 2028 (with the option of early maturity, at the initiative of Hapoalim Hanpakot and with the approval of the Bank of Israel, in 2023). The subordinated notes include a mechanism for principal loss absorption, in accordance with Proper Conduct of Banking Business Directive 202, through partial or full write-off of principal in the event that the common equity Tier 1 capital ratio of the Bank falls below 5%, or in accordance with a decision of the Banking Supervision Department; the subordinated notes constitute part of the Tier 2 capital of the Bank. In addition, in June 2018, Hapoalim Hanpakot completed an offering to the public of CPI-linked subordinated notes (Series S), bearing annual interest at a rate of 1.59%, with principal in a total amount of approximately NIS 0.7 billion, maturing in 2028 (with the option of early maturity, at the initiative of Hapoalim Hanpakot and with the approval of the Bank of Israel, in 2023). These subordinated notes include a principal loss absorption mechanism, similar to the subordinated notes (Series R) described above, and constitute part of the Tier 2 capital of the Bank.

## Note 21 Other Liabilities

NIS millions

### Composition[2]

| | December 31 | |
|---|---|---|
| | **2018** | 2017 |
| Deferred tax liability, net* | **65** | 68 |
| Current taxes – surplus current income-tax liability over advances paid | **268** | 696 |
| Income in advance | **285** | 299 |
| Employees, in respect of salaries | **1,166** | 1,219 |
| Provision for severance pay, retirement compensation, and pensions** | **4,296** | 4,698 |
| Expenses payable | **1,964** | 1,021 |
| Creditors in respect of credit-card activity | **-** | - |
| Allowance for credit losses in respect of off-balance sheet credit risk | **568** | 608 |
| Liabilities in respect of activity in the Maof market[1] | **1,010** | 617 |
| Other creditors and credit balances | **2,219** | 1,973 |
| Total other liabilities | **11,841** | 11,199 |

* See also Note 8D.
** See also Note 22.
(1) Stated at fair value.
(2) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 22 Employee Benefits

The employees of the Bank include:

A. Permanent and temporary employees – Employees whose terms of employment are established in collective agreements and arrangements formulated from time to time between the Bank and the Employee Union of the Bank;

B. Employees under personal contract – Employees whose terms of employment are established in personal contracts, such that the collective agreements and arrangements do not apply to them;

C. Employees under executive personal contract – Certain employees within the senior management stratum of the Bank (including the Chairman of the Board of Directors, the CEO, and members of the Board of Management), whose terms of employment are established in personal contracts, such that the collective agreements and arrangements do not apply to them.

## Note 22 Employee Benefits (continued)

The terms of employment of the employees of the Bank are described in detail below.

### A. Terms of employment of permanent and temporary employees

The principal benefits, beyond the regular salary components, to which the aforesaid employees of the Bank are entitled are set out below.

**1. Annual bonus contingent upon rate of return**

The annual bonus is influenced by the rate of return of net profit on equity. The basic threshold for the distribution of this bonus is a rate of return of 7.5%, and it is possible, with the approval of the Remuneration Committee and the Board of Directors, to grant bonuses not contingent upon the rate of return, or under circumstances in which the aforesaid rate of return is not attained.

**2. Share-based compensation**

Pursuant to the wage agreement signed in March 2013 by the Board of Management of the Bank and the Employee Union of the Bank for 2013-2017, the Bank adopted a plan for the allocation of phantom units to employees, in 2013 to 2017, without cost, to be exercised into cash after a vesting period of four years from the year in respect of which each allocation is granted. For further information regarding the terms of the phantom units, see Note 23 below. In February 2018, following approval by the Remuneration Committee, the Board of Directors of the Bank approved the extension of this plan by an additional year, with the allocation of an additional approximately 4.3 million phantom units to the employees of the Bank in respect of 2018.

In March 2019, following approval by the Remuneration Committee, the Board of Directors of the Bank approved another extension of this plan by an additional year, with the allocation of up to 4.5 million additional phantom units to the employees of the Bank in respect of 2019.

**3. Other benefits**

In addition to the benefits described above, employees of the Bank are entitled to additional benefits, during and after the period of their employment, primarily the following:

**Vacation**

Bank employees are entitled, by law and according to labor agreements, to annual vacation days. The provision was calculated based on employees' most recent salaries and the number of vacation days accumulated, with the addition of the required related expenses.

**25-year service grant**

Employees are entitled to a grant at the end of 25 years of employment at the Bank. This liability is calculated based on actuarial calculations, taking into account real salary gains influenced by the employee's age, and capitalized according to the yield of CPI-linked government bonds in Israel, plus a spread determined according to the directives of the Banking Supervision Department.

**Other post-employment benefits**

After retirement or after taking early retirement, Bank employees are entitled to a grant in respect of unutilized sick days, benefits for holiday gifts, and participation in well-being costs.

These liabilities are calculated based on actuarial calculations that take into account, as relevant, among other things, a real salary increment, and are capitalized according to the yield of CPI-linked government bonds in Israel, plus a spread determined according to the directives of the Banking Supervision Department.

## Note 22 Employee Benefits (continued)

**4. Retirement compensation and pensions**

**General information**

The pension rights of employees reaching retirement age are covered by the amounts accumulated in pension funds and in allowance-based provident funds. Employees who retire or who take early retirement are not entitled to severance pay.

**Pensions for employees taking early retirement**

Employees who retire on an allowance-based track are entitled to a monthly bridge pension, until the date established in the retirement agreement.

The provision is based on an actuarial calculation, and is capitalized according to the yield of CPI-linked government bonds in Israel, plus a spread determined according to the directives of the Banking Supervision Department.

**Early retirement of active employees**

In addition to the rights described above, in its actuarial calculation of the liability in respect of employee benefits, the Bank includes a liability in respect of employees who the Board of Management of the Bank expects to take early retirement or to depart with other preferred terms.

The liability was calculated based on an actuarial calculation taking the following into consideration, among other factors:

(1) A real wage increment influenced by the employee's age.

(2) Rates of departure with enlarged severance pay and early retirement, according to the experience of the Bank and management expectations and decisions, taking into consideration factors including the age and gender of the employee.

(3) A discount rate calculated according to the yield of CPI-linked government bonds in Israel, plus a spread determined according to the directives of the Banking Supervision Department.

(4) A mortality and disability rate based on current mortality tables published by the Chief Actuary of the Ministry of Finance.

**5. New wage agreement**

The wage agreement between the Board of Management of the Bank and the Employee Union of the Bank, which was in effect in 2013-2017 and applied to employees of the Bank who are not under personal contracts, concluded at the end of 2017. The parties are preparing to conduct negotiations in order to sign a new agreement.

### B. Terms of employment of employees under personal contracts

The customary terms of remuneration for these employees usually include a basic salary, share-based compensation (as noted above), employer contributions to a pension arrangement and study fund, an annual bonus, and other benefits during the period of employment.

## Note 22 Employee Benefits (continued)

### C. Terms of employment of employees under executive personal contracts

#### 1. General information

On December 19, 2016, the general meeting of shareholders of the Bank approved the officer remuneration plan of the Bank for 2016, valid for three years, pursuant to the Financial Corporations Officer Remuneration Law (Special Approval and Non-Deduction of Expenses for Tax Purposes due to Exceptional Remuneration), 2016 (hereinafter: the "Remuneration Limit Law") and the ceiling established therein (the "Remuneration Ceiling"); the Companies Law, 1999 (the "Companies Law"); and the Banking Corporation Remuneration Policy Directive (the "2016 Remuneration Policy"). On November 29, 2016, the Bank adopted a comprehensive new remuneration policy for its senior executives who are not officers (all parts of the remuneration policy for the different populations within the Bank shall hereinafter be referred to, jointly, as the "2016 Remuneration Policy"), as well as a remuneration plan consistent with this policy (the "2016 Plan"). The 2016 Remuneration Policy and the 2016 Plan were amended from time to time, as necessary. The Bank later adopted additional chapters of the 2016 Remuneration Policy referring to additional categories of employees.

The Bank has also applied some of the principles of its 2016 Remuneration Policy to its subsidiaries in Israel and overseas and to its branches overseas.

**2016 Remuneration Policy**

In 2018, all of the employment agreements of the Chairman of the Board of the Bank, the CEO of the Bank, the members of the Board of Management, and senior executives (who are not members of the Board of Management, and most of whom are not officers of the Bank) (all jointly "the Executives") are fully subject to the 2016 Remuneration Policy.

The main rights and benefits to which the employees of the Bank under executive personal contracts are entitled during the period of their employment, subject to the directives of the 2016 Remuneration Policy, are described below.

#### 2. Chairman of the Board of Directors

The terms of service of Mr. Oded Eran as Chairman of the Board of the Bank were approved by the Remuneration Committee and by the Board of Directors of the Bank on February 27, 2017, and by the general meeting of shareholders of the Bank on April 4, 2017, for the period from January 1, 2017 to December 31, 2019. The employment agreement with the Chairman conforms with the directives of the 2016 Remuneration Policy, the 2016 Remuneration Plan, and the applicable laws, including the Banking Corporation Remuneration Policy Directive, pursuant to which the Chairman shall be entitled to the payment of fixed remuneration only, including a salary, related benefits, and fixed equity compensation.

#### 3. CEO of the Bank

The employment agreement with the CEO applies to the period from October 12, 2016, to December 31, 2019, and was approved by the general meeting of shareholders of the Bank on December 19, 2016, following approval by the Remuneration Committee and by the Board of Directors of the Bank. The agreement conforms with the directives of the 2016 Remuneration Policy and with the 2016 Remuneration Plan, pursuant to which the CEO shall receive fixed remuneration only, including a salary, related benefits, and fixed equity compensation.

## Note 22 Employee Benefits (continued)

**4. Members of the Board of Management**

**a. 2016 Plan**

***1. Fixed remuneration***

1.1. General information – Fixed remuneration may include the following components: a monthly salary; a monthly payment without benefits; employer contributions and related benefits; and fixed equity compensation, as described in Section 1.2 below. Retirement payments up to the level of the common practice for other employees of the Bank are classified as fixed remuneration.

1.2. Fixed equity remuneration – Each executive shall be granted a quantity of restricted shares, calculated by dividing the value noted in the 2016 Remuneration Plan, which is established according to the rank of the executive, by the average closing price of the Bank's share on the stock exchange in the 30 days preceding the day of the publication of the Bank's annual financial statements. The restricted shares shall be granted at no cost, and exercise of the shares shall be restricted for a period of 36 months from the end of the year in respect of which they are granted.

***2. Variable remuneration – risk-adjusted performance-based annual bonus***

2.1. Establishment of the personal bonus budget for members of the Board of Management – The annual bonus for members of the Board of Management consists of a performance-based component, which is calculated according to the performance of the Bank and influenced by the personal performance of the member of the Board of Management, and a bonus component at the discretion of the CEO or the supervising forum (for the control and supervision functions, as detailed in the 2016 Remuneration Policy).

2.2. Performance-based component – Each member of the Board of Management shall be assigned a personal bonus budget, based on the difference between the actual ROE and the required cost of capital, as defined in the 2016 Plan (hereinafter: the "ROE Difference"). In a year in which the actual ROE Difference is positive, members of the Board of Management are entitled to a bonus based on a progressively rising scale of the actual ROE Difference, from an actual ROE Difference of 0.5%, to 3% or more, up to a ceiling of four monthly salaries (according to the executive's rank and categorization as a business function or a control and supervision function). Of the personal bonus budget, 50% shall be calculated according to a grade based on the attainment of performance indicators, and 50% shall be fixed.

2.3. Discretionary bonus component – An additional component in the amount of up to three monthly salaries, to be granted at the discretion of the CEO, or the supervising officer for control and supervision functions. This component shall be granted from the "bonus pool," the amount of which shall not exceed two monthly salaries for each member of the Board of Management. If the Bank has "special profits," as defined in the 2016 Plan, the Remuneration Committee and the Board of Directors are permitted to decide to increase the bonus pool to the amount of up to 2.5 monthly salaries for each member of the Board of Management. In a year in which the actual ROE Difference is negative, the recommendation of the CEO or of the supervising officer (for control and supervision functions) shall be subject to approval by the Remuneration Committee and the Board of Directors.

2.4. Additional terms – The 2016 Plan includes additional directives relevant to the bonus, in connection with the termination of employment, the postponement and spreading of part of the payment of the bonus, and reduction or reimbursement of the bonus under certain circumstances.

2.5. Legal ceiling – In accordance with the 2016 Plan, variable remuneration may be capped so that it does not exceed the Remuneration Ceiling pursuant to the Remuneration Limit Law.

## Note 22 Employee Benefits (continued)

***3. Retirement arrangements***

3.1. Pursuant to the 2016 Remuneration Policy of the Bank, and subject to the transitional directives therein with respect to rights accrued and/or to be accrued (as detailed below), according to the agreements with the members of the Board of Management (including the CEO of the Bank) (hereinafter: the "Senior Employees"), upon the termination of employment as a result of dismissal or resignation, a Senior Employee shall be entitled to severance pay at a rate of 100% in respect of the period from the inception date of the agreement.

3.2. Pursuant to arrangements in previous employment agreements with the Senior Employees, insofar as such agreements exist, it has been determined, with respect to the relevant period of such agreements, that in the event that the Bank decides, on its own initiative, to dismiss one of the Senior Employees or to terminate his or her employment at the end of the period of the agreement, the Senior Employee shall be entitled to severance pay at a rate of 250%. In addition, pursuant to the previous arrangements, when the Senior Employee reaches the date on which the sum of his/her age and his/her period of employment at the Bank exceeds 75 years (for a member of the Board of Management serving at least seven years in his/her position, the number of years of service on the Board of Management shall be added as additional years of employment for the purpose of the accrual of 75 years, as described above), the Senior Employee shall be entitled to early retirement, and may choose between enlarged severance compensation at a rate of 250% of his/her last relevant monthly salary, according to the relevant agreement, multiplied by the number of years of employment at the Bank, or a monthly pension (at the rate accrued on his/her behalf), to be paid from the date of his/her early retirement until he/she reaches the retirement age specified by law. The rate of the pension for a member of the Board of Management is 2.67% per year for the first 15 years of work, 2% per year for each additional year in which he/she did not serve as a member of the Board of Management, and 2.5% for each year in which he/she served as a member of the Board of Management, up to a maximum rate of 70% of the salary that entitles him/her to the pension. A member of the Board of Management who has reached the age of 62 may choose to receive only a monthly allowance, or severance pay at a rate of 100%.

3.3. Transitional directives pursuant to the 2016 Plan – The Senior Employees shall be entitled to all of the rights accrued up to the end of the relevant existing agreements, as noted, provided that the forecast expense, as defined in the Remuneration Limit Law, does not exceed the ceiling in the law. Within the present agreements at the Bank, a Senior Employee can accrue seniority and age for the purpose of the examination of fulfillment of the required threshold conditions, as detailed above, for the determination of eligibility for the choice of an early-retirement track. Additional terms may be added in determining eligibility.

## Note 22 Employee Benefits (continued)

**b. 2014 Plan**

***1. Equity compensation – restricted stock units (RSU)***

Deferred variable remuneration, if any, is granted to Senior Employees in the form of restricted stock units ("RSU"). The Senior Employees were not granted RSU in respect of 2018, but they hold RSU granted to them in respect of previous years.

1.1. Vesting dates and vesting conditions – The RSU that have been granted vest in three equal installments, after 12, 24, and 36 months, respectively, from the beginning of the year following the grant year. The quantity of RSU to vest, of each such RSU installment, at the end of each vesting year, if any, depends on the difference between the actual ROE and the required cost of capital (at a negative actual ROE Difference of -5%, there shall be no entitlement to RSU; in a year in which the negative actual ROE Difference is between -2% and -5%, a proportional part shall be exercised into shares, calculated on a linear basis, provided that the Bank is not in material deviation from the required capital-adequacy ratios in that year; and in a year in which the negative actual ROE Difference is not lower than -2%, the entire deferred annual installment shall vest into shares, provided that the Bank is not in material deviation from the required capital-adequacy ratios in that year).

1.2. Exercise method and consideration – If all of the conditions for the exercise of the RSU are fulfilled, the RSU are exercised automatically by the Bank into shares of the Bank and transferred to the trustee.

1.3. Dividend distribution – In the event that the Bank distributes a dividend prior to the exercise of the RSU into shares, the Senior Employee shall be entitled to a payment in cash in an amount equal to the amount of the dividend in respect of the number of RSU as aforesaid, less the applicable tax.

1.4. Adjustments – The plan includes directives regarding adjustments to be made to the exercise shares upon changes to the Bank's share capital or upon changes to the Bank's structure due to a merger or sale of the Bank.

**5. Senior executives other than members of the Board of Management**

The 2016 Plan applies to the Bank's senior executives who are not members of the Board of Management, according to principles similar to those specified above with regard to members of the Board of Management, but at different volumes, including with regard to the weight of each factor in calculating the personal grade for the senior executive. The terms of the plan for senior executives who are not members of the Board of Management (in this item, the "Senior Executives") differ from the terms for members of the Board of Management in the identity of the officials who set targets and assess the attainment thereof, and in the identity of the officials who approve the distribution of the bonus budget and the bonus for each executive. Senior Executives who are on assignment overseas for the Bank will be granted restricted phantom units instead of fixed equity compensation and RSU, if any, at similar terms to those of the RSU, which are to be settled in cash.

## Note 22 Employee Benefits (continued)

With regard to senior executives who are not members of the Board of Management, the following will apply:

**a. Annual bonus**

***2016 Plan***

Establishment of the bonus budget for senior executives (who do not belong to the control and supervision functions) – In a year in which the actual ROE Difference is greater than 0.5%, the total bonus budget for each group of division managers, senior unit managers, department managers, and corresponding positions shall be calculated according to the actual ROE Difference, and adjusted to the manager's rank and proportional salary within his or her category. The budget is calculated based on a progressively rising scale of the actual ROE Difference, from an actual ROE Difference of 0.5% to an actual ROE Difference of 4% or more. The ceiling on the annual bonus for these executives is 8-10 monthly salaries (depending on rank).

The 2016 Plan contains directives concerning the distribution of the bonus budget among the senior executives (who do not belong to the control and supervision functions), and concerning the establishment of the personal bonus budget for senior executives in the control and supervision functions and derivation of the personal bonus from this budget.

**b. Retirement arrangements**

Notwithstanding the foregoing with regard to retirement arrangements for Senior Employees who are members of the Board of Management, for Senior Executives employed under personal contracts who are not members of the Board of Management, the rate of the pension is 2.55% for the first 15 years of work, 1.5% per year for each additional year until the signing date of the beginning of their employment under a personal contract, and 2% per year for each additional year, up to a maximum rate of 70% of the salary that entitles the employee to the pension. Senior executives who are not members of the Board of Management shall be entitled to all of the rights accrued up to the end of the arrangements that existed in previous employment agreements with them, insofar as such agreements existed, provided that the forecast expense, as defined in the Remuneration Limit Law, does not exceed the ceiling in the law. Within the previous employment agreements and within the new employment agreements, it is possible for a senior executive to continue to accrue seniority and rights in connection with an early-retirement track, based on the determinant salary in the relevant previous agreement with the senior executive, insofar as such an agreement existed. In the event of retirement in a severance-pay track, the executive may be entitled, in respect of the years of service up to the end of 2016, to severance pay of up to 250% based on the determinant salary according to the relevant previous agreement with the executive. In respect of years of service from 2017 forward, in the event of retirement in a severance-pay track, the executive may be entitled to the higher of 250% severance pay, based on the salary for severance pay, or 100% of the last salary of the executive. Subject to the discretion of the Remuneration Committee and the Board of Directors of the Bank, based on a recommendation of the CEO, and subject to the directives of the law, severance pay can be approved for a senior executive in the amount of up to 175% of his or her last salary, in respect of all of the years of his or her employment. In determining eligibility for the choice of an early-retirement track, a condition of a minimum age of 55 shall be added, and additional conditions may also be added. The choice of an early-retirement track will not be available to senior executives who join the ranks of the senior executives of the Bank for the first time.

## Note 22 Employee Benefits (continued)

NIS millions

The foregoing notwithstanding, senior executives who were subject to a collective agreement on April 12, 2016, and who transitioned or transition from a collective agreement to an executive personal contract after that date, shall be entitled, under certain conditions, to participate in the retirement plans of the Bank, such as they are at that time, or they shall be entitled to severance compensation of 150% in respect of the period during which they were subject to a collective agreement, according to their most recent relevant salary for that period.

### D. Employee benefit liabilities[1]

| | December 31 | |
|---|---|---|
| | **2018** | 2017 |
| **Early retirement and severance pay** | | |
| Amount of liability | **7,131** | **7,727 |
| Fair value of plan assets | **(3,722)** | (3,963) |
| Surplus liability over plan assets (included in other liabilities) | **3,409** | **3,764 |
| **Grant for non-utilization of sick days** | | |
| Amount of liability | **339** | 379 |
| Fair value of plan assets | **-** | - |
| Surplus liability over plan assets (included in other liabilities) | **339** | 379 |
| **25-year service grant** | | |
| Amount of liability | **36** | 37 |
| Fair value of plan assets | **-** | - |
| Surplus liability over plan assets (included in other liabilities) | **36** | 37 |
| **Other benefits at end of employment and post-employment** | | |
| Amount of liability | **571** | 617 |
| Fair value of plan assets | **-** | - |
| Surplus liability over plan assets (included in other liabilities) | **571** | 617 |
| **Total** | | |
| Surplus liabilities in respect of employee benefits over plan assets included in the item "other liabilities"* | **4,355** | **4,797 |
| * Of which: in respect of benefits for employees overseas | **54** | 48 |

** Reclassified.
(1) Includes balances attributed to a discontinued operation. For details, see Note 1G.

## Note 22 Employee Benefits (continued)

NIS millions

### E. Post-retirement benefit plan[1]

#### (1) Commitments and financing status

#### a. Net change in commitment in respect of forecast benefit**,***

| | For the year ended December 31 | |
|---|---|---|
| | **2018** | 2017 |
| Net commitment in respect of forecast benefit at beginning of period | **4,760** | 4,753 |
| Service cost | **135** | 152 |
| Interest cost | **136** | 153 |
| Deposits by plan participants | **(13)** | - |
| Actuarial loss (profit) | **(237)** | 273 |
| Changes in foreign-currency exchange rates | **4** | (5) |
| Benefits paid | **(466)** | *(566) |
| Net commitment in respect of forecast benefit at end of period | **4,319** | *4,760 |
| Net commitment in respect of cumulative benefit at end of period | **4,123** | *4,531 |

#### b. Amounts recognized in the consolidated balance sheet

| | December 31 | |
|---|---|---|
| | **2018** | 2017 |
| Amounts recognized in the item "other liabilities" | **4,319** | *4,760 |

#### c. Amounts recognized in accumulated other comprehensive income (loss), before tax effect

| | December 31 | |
|---|---|---|
| | **2018** | 2017 |
| Net actuarial loss | **1,498** | 1,877 |
| Closing balance in accumulated other comprehensive income | **1,498** | 1,877 |

#### d. Plans in which the commitment in respect of the cumulative and forecast benefit exceeds the plan assets

| | December 31 | |
|---|---|---|
| | **2018** | 2017 |
| Commitment in respect of forecast benefit | **8,041** | *8,723 |
| Commitment in respect of cumulative benefit | **7,845** | *8,494 |
| Fair value of plan assets | **(3,722)** | (3,963) |

* Reclassified.
** Includes post-retirement benefits, including a sick day grant paid at retirement.
*** The amounts presented are net of plan assets. For further details, see Section (4) below.
(1) Includes balances attributed to a discontinued operation. For details, see Note 1G.

## Note 22 Employee Benefits (continued)

NIS millions

### E. Post-retirement benefit plan[1] (continued)

**(2) Expense for the period**

**a. Components of net benefit cost recognized in profit and loss**

| | For the year ended December 31 | | |
|---|---|---|---|
| | **2018** | 2017 | 2016 |
| Service cost | **135** | 152 | 122 |
| Interest cost | **136** | 153 | 127 |
| Subtraction of unrecognized amounts: | | | |
| Net actuarial loss (profit) | **146** | 146 | 74 |
| Net total benefit cost | **417** | 451 | 323 |

**b. Changes in plan assets and in benefit commitments recognized in other comprehensive income (loss), before tax effect**

| | For the year ended December 31 | | |
|---|---|---|---|
| | **2018** | 2017 | 2016 |
| Net actuarial loss (profit) for the period | **(237)** | 273 | 1,296 |
| Subtraction of actuarial profit (loss) | **(146)** | (146) | (74) |
| Changes in foreign-currency exchange rates | **4** | (5) | (1) |
| Total recognized in other comprehensive income | **(379)** | 122 | 1,221 |
| Net total benefit cost | **417** | 451 | 323 |
| Total recognized in net benefit cost for the period and in other comprehensive income | **38** | 573 | 1,544 |

**c. Estimate of amounts included in accumulated other comprehensive income and expected to be subtracted from accumulated other comprehensive income to the statement of profit and loss as an expense (as income) in 2019, before tax effect**

| | |
|---|---|
| Net actuarial loss | **104** |
| Total expected to be subtracted from accumulated other comprehensive income | **104** |

(1) Includes balances attributed to a discontinued operation. For details, see Note 1G.

## Note 22 Employee Benefits (continued)

### E. Post-retirement benefit plan[1] (continued)

**(3) Assumptions***

**a. Assumptions based on a weighted average used to determine the commitment in respect of the benefit and to measure the net cost of the benefit**

1. Principal assumptions used to determine the commitment in respect of the benefit

| | December 31 | |
|---|---|---|
| | **2018** | 2017 |
| Capitalization rate | **1.89%** | 1.25% |
| Rate of increase in the CPI | **2.0%** | 2.0% |
| Rate of increase in remuneration[2] | **0.0%-7.5%** | 0.0%-7.5% |

Departure rates vary by age and gender, and reflect a weighted departure rate of approximately 7.5% per annum.

2. Principal assumptions used to measure net benefit cost for the period

| | For the three months ended December 31 | | For the three months ended September 30 | | For the three months ended June 30 | | For the three months ended March 31 | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Capitalization rate | **1.42%** | 1.48% | 1.58% | 1.76% | 1.32% | 1.73% | 1.25% | 1.71% |
| Rate of increase in remuneration[2] | **0.0%-7.5%** | 0.0%-7.5% | 0.0%-7.5% | 0.0%-7.5% | 0.0%-7.5% | 0.0%-7.5% | 0.0%-7.5% | 0.0%-7.5% |

**b. Effect of a one-percentage-point change on the commitment in respect of the forecast benefit, before tax effect**

| | Increase of one percentage point | | Decrease of one percentage point | |
|---|---|---|---|---|
| | December 31 | | | |
| | **2018** | 2017 | **2018** | 2017 |
| | NIS millions | | | |
| Capitalization rate | **(332)** | (381) | **390** | 451 |
| Rate of increase in the CPI | **(32)** | (37) | **39** | 45 |
| Departure rate | **165** | 164 | **(161)** | (160) |
| Rate of increase in remuneration | **249** | 288 | **(214)** | (246) |

* The assumptions refer to the stand-alone data of the Bank.

(1) Includes balances attributed to a discontinued operation. For details, see Note 1G.

(2) The rate of increase in remuneration is influenced by several processes leading to an increase in the cost of wages, which reflect an average growth rate of approximately 1.5% per annum, in real terms. These processes include promotions and changes in job descriptions, seniority, and rank.

## Note 22 Employee Benefits (continued)

NIS millions

### E. Post-retirement benefit plan[1] (continued)

**(4) Plan assets**

The Bank's liability for employee benefits is calculated based on an actuarial calculation. Among other factors, this calculation takes into account the probability of early retirement with beneficial terms, in each of the relevant tracks (enlarged severance pay or early retirement); the amounts of the liability at retirement; and the value of amounts funded at that date. In addition, in light of the existing labor agreements at the Bank and the nature of the retirement agreements at the Bank, the Bank's exposure to (positive or negative) changes in the value of amounts funded is limited, due to Section 14 of the Severance Pay Law, pursuant to which in the event of an employee's departure, reaching the retirement age established by law, or taking early retirement, the Bank is not required to supplement amounts funded, and customarily does not do so, if their value has decreased or does not cover the increase that has occurred in wages. The Bank's liability for severance pay to its employees is primarily covered by amounts funded deposited in severance-pay funds in the employees' names.

Balances of the liability for severance pay and amounts funded for severance pay:

| | December 31 | |
|---|---|---|
| | **2018** | 2017 |
| Liability for severance pay | **3,469** | 3,731 |
| Amounts funded for severance pay | **(3,359)** | (3,604) |
| Net liability | **110** | 127 |

(1) Includes balances attributed to a discontinued operation. For details, see Note 1G.

It is emphasized that the net liability exposure of the Bank to changes in the value of amounts funded, weighted by the probability of retirement in a compensation track, is immaterial. Thus, for example, in the case of a 10% decrease in the fair value of the amounts funded for severance pay, the net liability would increase by a total of approximately NIS 20 million, in light of the fact that the probability of retirement in an enlarged severance-pay track is low. Amounts funded for severance pay are deposited in severance-pay funds in the employees' names. Approximately 45% of the total balances of amounts funded for severance pay are deposited with the Central Retirement Fund of Histadrut Workers Ltd. (KGM). The remaining amounts are deposited with a large number of severance-pay provident funds, according to employees' choice.

## Note 22 Employee Benefits (continued)

NIS millions

### F. Cash flows[1]

**(1) Deposits**

| | Forecast | Actual deposits | |
|---|---|---|---|
| | | For the year ended December 31 | |
| | **2019*** | **2018** | 2017 |
| Deposits | **183** | **182** | 185 |

* Estimated deposits which the Bank expects to pay to pension plans for a defined benefit during 2019.

**(2) Future benefit payments expected by the Bank**

| Year | |
|---|---|
| 2019 | 537 |
| 2020 | 378 |
| 2021 | 370 |
| 2022 | 319 |
| 2023 | 298 |
| 2024-2028 | 1,214 |
| 2029 forward | 2,193 |
| Total | 5,309 |

(1) Includes balances attributed to a discontinued operation. For details, see Note 1G.

## Note 22 Employee Benefits (continued)

### G. Efficiency plan

On January 12, 2016, the Banking Supervision Department issued a letter concerning improvement of the operational efficiency of the banking system in Israel, requiring banking corporations to examine and approve a multi-year efficiency plan for the five years beginning in 2016 and principles for a long-term improvement in efficiency. Pursuant to the letter, banking corporations that meet the conditions that have been established will receive a relief permitting them to spread the effect of the costs of the plan, for the purpose of calculating capital adequacy, over five years.

The Board of Directors of the Bank approved an efficiency plan on October 27, 2016, after the Board of Management of the Bank considered alternatives for implementation of the letter and formulated an outline, and after receiving in-principle approval from the Banking Supervision Department, in accordance with the requirements in the letter.

According to the approved efficiency plan, approximately 1,500 employees are expected to leave the Bank Group in 2017-2020.

Main points of the approved plan:

- Pursuant to the plan, permanent employees are permitted to take early retirement from the Bank with beneficial terms.
- The following benefits were offered, contingent on the age and duration of service of the employees: (a) an early pension, until legal retirement age; or (b) increased severance pay at a rate of up to 275%, for employees who meet the conditions established in the plan.

Upon the approval of the plan, the Bank updated the long-term rates of employee departure with beneficial terms. The new departure rates vary by age and gender, and reflect a weighted departure rate of approximately 7.5% per annum, compared with 6.25% per annum prior to the change.

The overall cost of the plan, including in respect of the adjustment of long-term departure rates, as detailed above, is estimated at approximately NIS 1.2 billion, before tax effects.

Accounting principles:

- In accordance with the accounting rules applicable to the Bank, the costs of updating the actuarial liability in respect of the efficiency plan and adjusting the long-term departure rates, in the amount of approximately NIS 1.2 billion, constitute an actuarial loss, and were allocated to other comprehensive income in 2016.
- In subsequent periods, the costs of the plan will be charged to profit and loss, as part of the balance of "actuarial profits and losses," using the straight-line method, over the average remaining term of service of the employees, which currently stands at approximately 14 years.
- In the event that in certain periods, the total payments in respect of severance pay exceed the service cost and the interest cost recognized in that year, and significant settlement is performed in accordance with US GAAP on employee benefits, the rate of amortization of the "actuarial profits and losses" during that period will be accelerated in order to match the pace of settlement of the actuarial liability for that period.

Pursuant to the letter and the in-principle approval received from the Banking Supervision Department, the effect of the costs of the efficiency plan on the ratio of common equity Tier 1 capital to risk components, which is estimated at approximately 0.16% as at December 31, 2018, is allocated in equal parts over five years, beginning in 2017.

The Bank intends to examine the feasibility and effectiveness of the plan over the coming years, in view of the uncertainty in legislation and regulation, along with the inception of various reforms, the full effect of which on the Israeli banking industry in general and on the Bank in particular cannot be estimated at this time.

# Note 23 Share-Based Payment Transactions

## A. Details of share-based payment transactions

Set out below are details regarding share-based payment arrangements that existed at the Bank during the period ended December 31, 2018.

### 1. Share-based payment for employees of the Bank

**2013-2017 plan for employees of the Bank**

On March 6, 2013, the Board of Directors of the Bank approved a plan for the grant of phantom units. Under the plan approved, employees of the Bank were granted 22.5 million phantom units, at no cost, with no exercise price. The phantom units were granted in five equal annual allocations of 4.5 million phantom units each, from 2013 to 2017. All of the phantom units will be automatically exercised into cash by the Bank following a vesting period of four years from the date on which each allocation was granted (each phantom unit will be redeemed in cash in an amount equal to the share price of the Bank immediately prior to the exercise).

In February 2018, following approval by the Remuneration Committee, the Board of Directors of the Bank approved the extension of this plan by an additional year, with the allocation of an additional approximately 4.3 million phantom units to the employees of the Bank in respect of 2018.

The balance of phantom units allocated to employees of the Bank as at December 31, 2018, amounts to 16,819,754 phantom units.

In March 2019, following approval by the Remuneration Committee, the Board of Directors of the Bank approved another extension of this plan by an additional year, with the allocation of up to 4.5 million additional phantom units to the employees of the Bank in respect of 2019.

### 2. Restricted shares and restricted stock units pursuant to the 2014 Plan and the 2016 Plan for members of the Board of Management and senior executives

For details regarding restricted shares and restricted stock units ("RSU") granted or to be granted to members of the Board of Management and senior executives pursuant to these plans, see Note 22 above.

## B. Estimates of fair value of capital instruments granted

**Share-based payment transactions settled in capital instruments granted to senior executives**

The fair value of restricted shares, RSU, and contingent RSU that have been granted and are to be settled in capital instruments is equal to the price of the Bank's share on the day of the grant, due to the fact that the exercise increment in respect thereof is equal to zero, and they include adjustments for dividend distribution. The Bank has adjusted the quantity of contingent RSU expected to vest, according to the forecast ROE difference over the cost of capital.

## Note 23 Share-Based Payment Transactions (continued)

NIS millions

### C. Additional information regarding share-based payment transactions settled in capital instruments

**1. Share-based payment transactions settled in capital instruments granted to senior executives as at December 31, 2018**

| | Number of units | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Chairman | | CEO | | Members of the Board of Management | | Senior executives | | Other key employees | |
| | Restricted | Contingent | Restricted | Contingent | Restricted | Contingent | Restricted | Contingent | Restricted | Contingent |
| Outstanding at beginning of year | - | - | - | 9,574 | - | 233,372 | - | 933,359 | - | 60,705 |
| Granted during the year[1] | 20,384 | - | 4,052 | - | 38,031 | - | 365,523 | - | - | 16,557 |
| Forfeited during the year | - | - | - | - | - | - | - | (4,705) | - | - |
| Exercised during the year[2] | (20,384) | - | (4,052) | (4,787) | (38,031) | (183,380) | (365,523) | (705,505) | - | (49,747) |
| Expired during the year | - | - | - | - | - | - | - | - | - | - |
| Outstanding at end of year[3] | - | - | - | 4,787 | - | 49,992 | - | 223,149 | - | 27,515 |
| (1) Weighted average fair value of shares granted during the year at the date of measurement, in NIS | 24.68 | | 24.68 | | 24.68 | | 24.68 | | 24.68 | |
| (2) Weighted average share price at the exercise date of the units exercised during the year, in NIS | 24.68 | | 24.12 | | 23.83 | | 24.00 | | 23.65 | |
| (3) Shares outstanding at end of year: | | | | | | | | | | |
| Number of shares | - | - | - | 4,787 | - | 49,992 | - | 223,149 | - | 27,515 |
| Weighted average balance of contractual lifetime (in years) | - | - | - | 1.00 | - | 1.00 | - | 1.00 | - | 1.20 |

## Note 23 Share-Based Payment Transactions (continued)

NIS millions

### C. Additional information regarding share-based payment transactions settled in capital instruments (continued)

**2. Share-based payment transactions settled in capital instruments granted to senior executives as at December 31, 2017**

| | Number of units | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | CEO | | Former CEO | | Members of the Board of Management | | Senior executives | | Other key employees | |
| | Restricted | Contingent | Restricted | Contingent | Restricted | Contingent | Restricted | Contingent | Restricted | Contingent |
| Outstanding at beginning of year | - | - | 99,819 | - | - | 323,440 | - | 1,132,340 | - | 80,459 |
| Granted during the year[1] | 960 | 14,361 | - | - | 7,203 | 149,976 | 10,533 | 682,134 | - | 49,431 |
| Exercised during the year[2] | (960) | (4,787) | (99,819) | - | (7,203) | (240,044) | (10,533) | (881,115) | - | (69,185) |
| Outstanding at end of year[3] | - | 9,574 | - | - | - | 233,372 | - | 933,359 | - | 60,705 |
| (1) Weighted average fair value of shares granted during the year at the date of measurement, in NIS | 23.03 | | - | | 23.03 | | 23.03 | | 23.03 | |
| (2) Weighted average share price at the exercise date of the units exercised during the year, in NIS | 25.17 | | 22.00 | | 25.53 | | 25.57 | | 25.60 | |
| (3) Shares outstanding at end of year: | | | | | | | | | | |
| Number of shares | - | 9,574 | - | - | - | 233,372 | - | 933,359 | - | 60,705 |
| Weighted average balance of contractual lifetime (in years) | - | - | - | - | - | 1.21 | - | 1.24 | - | 1.27 |

## Note 23 Share-Based Payment Transactions (continued)

### D. Liabilities arising from share-based payment transactions settled in cash

**1. Further details regarding phantom units granted to employees as at December 31, 2018**

| | |
|---|---|
| Exercise price range in NIS | **-** |
| Number of phantom units granted but not yet exercised | **16,819,754** |
| Of which: exercisable | **-** |
| Average years to expiration | **1.5** |

Further details regarding phantom units granted to employees as at December 31, 2017

| | |
|---|---|
| Exercise price range in NIS | - |
| Number of phantom units granted but not yet exercised | 16,879,680 |
| Of which: exercisable | - |
| Average years to expiration | 1.5 |

**2. Further details regarding restricted phantom units and contingent restricted phantom units for senior executives settled in cash as at December 31, 2018**

| | Restricted | Contingent | Total |
|---|---|---|---|
| Exercise price range in NIS | **-** | **-** | **-** |
| Number of phantom units granted but not yet exercised | **75,957** | **54,650** | **130,607** |
| Of which: exercisable | **-** | **-** | **-** |
| Average years to expiration | **1.30** | **1.25** | **1.28** |

Further details regarding restricted phantom units and contingent restricted phantom units for senior executives settled in cash as at December 31, 2017

| | Restricted | Contingent | Total |
|---|---|---|---|
| Exercise price range in NIS | - | - | - |
| Number of phantom units granted but not yet exercised | 68,314 | 79,639 | 147,953 |
| Of which: exercisable | - | - | - |
| Average years to expiration | 1.10 | 1.34 | 1.23 |

**3. Further details regarding the total liability arising from share-based payment transactions and regarding the internal value of liabilities in respect of which the counterparty's right to cash vested by the end of the year**

| | December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | NIS millions | |
| Total liabilities arising from share-based payment transactions | **239** | 293 |
| Internal value of liabilities in respect of which the counterparty's right to cash or other assets vested by the end of the year | **107** | 99 |

# Note 24 Capital, Capital Adequacy, Leverage, and Liquidity

## A. Share capital

| | December 31 | | | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | Registered | | Issued and paid-up* | |
| | Amount in NIS | | | |
| Ordinary shares of NIS 1 par value | **4,000,000,000** | 4,000,000,000 | **1,333,703,474** | 1,333,065,159 |

* Issued capital after the deduction of 3,673,637 ordinary shares (December 31, 2017: 4,311,952 ordinary shares) purchased by the Bank, as detailed below. The shares are registered for trading on the Tel Aviv Stock Exchange.

## B. Dividends

As of the first quarter of 2017, the dividend distribution policy of the Bank is to distribute up to 40% of quarterly net operating profit. Any distribution is subject to a specific resolution of the Board of Directors of the Bank, based on its judgment at the date of the distribution, taking into account business considerations, the directives of all laws, and any limits on distribution.

## C. Dividend payments

Before the date of approval of the financial statements as at June 30, 2018, the Banking Supervision Department notified the Bank that in light of the substantive uncertainty with respect to the investigation of the United States authorities, and for reasons of caution and conservatism, the Banking Supervision Department was of the opinion that, at that time, dividends should not be distributed by the Bank. Accordingly, for reasons of conservatism and in coordination with the Bank of Israel, the Board of Directors of the Bank did not declare the distribution of a dividend from the profits of the second, third, and fourth quarters of 2018, with no change to the Bank's dividend distribution policy.

Details of dividends paid:

| Date of declaration | Date of payment | Dividend per share | Dividend paid in cash |
|---|---|---|---|
| | | Agorot | NIS millions |
| **May 23, 2018** | **June 12, 2018** | **18.825** | **251** |
| March 25, 2018 | April 11, 2018 | 18.345 | 245 |
| November 27, 2017 | December 14, 2017 | 14.08 | 188 |
| August 14, 2017 | August 31, 2017 | 24.365 | 325 |
| May 23, 2017 | June 13, 2017 | 22.980 | 307 |
| March 29, 2017 | April 18, 2017 | 3.105 | 41 |

## Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

### D. Basel 3 directives

The Bank applies the capital measurement and adequacy directives based on the Basel directives, as published by the Banking Supervision Department and as integrated into Proper Conduct of Banking Business Directives 201-211 and the file of questions and answers.

The Basel 3 directives took effect on January 1, 2014. Implementation is gradual, in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299, "Capital Measurement and Adequacy – Supervisory Capital – Transitional Directives." In accordance with the transitional directives, the supervisory adjustments and deductions from capital, as well as non-controlling interests that do not qualify for inclusion in supervisory capital, were deducted from capital gradually, at a rate of 20% per annum, from January 1, 2014 to January 1, 2018. Capital instruments that no longer qualify as supervisory capital were recognized as of January 1, 2014, up to a ceiling of 80% of their balance in the supervisory capital as at December 31, 2013; this ceiling is being lowered by an additional 10% in each subsequent year, until January 1, 2022. Accordingly, in 2017, the rate of deductions from supervisory capital was 80%, and the ceiling for instruments qualifying as supervisory capital was 50%. In 2018, the rate of deductions from supervisory capital is 100%, and the ceiling for instruments qualifying as supervisory capital is 40%.

# Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

## E. Capital adequacy in consolidated data

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| | NIS millions | |
| **1. Capital for the calculation of the capital ratio after supervisory adjustments and deductions** | | |
| Common equity Tier 1 capital[1] | **38,004** | 36,582 |
| Additional Tier 1 capital | **977** | 1,221 |
| Total Tier 1 capital[1] | **38,981** | 37,803 |
| Tier 2 capital | **10,042** | 9,728 |
| Total overall capital[1] | **49,023** | 47,531 |
| **2. Weighted balances of risk-adjusted assets** | | |
| Credit risk[2] | **312,900** | 295,986 |
| Market risks | **3,429** | 5,114 |
| Operational risk | **24,268** | 23,672 |
| Total weighted balances of risk-adjusted assets[2] | **340,597** | 324,772 |
| | % | |
| **3. Ratio of capital to risk components** | | |
| Ratio of common equity Tier 1 capital to risk components | **11.16%** | 11.26% |
| Ratio of Tier 1 capital to risk components | **11.44%** | 11.64% |
| Ratio of total capital to risk components | **14.39%** | 14.64% |
| Minimum common equity Tier 1 capital ratio required by the Banking Supervision Department[3][4] | **10.24%** | 10.23% |
| Minimum total capital ratio required by the Banking Supervision Department[3][4] | **13.74%** | 13.73% |

(1) The data are presented in accordance with Proper Conduct of Banking Business Directive 202, "Capital Measurement and Adequacy – Supervisory Capital," and in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299. The data also include adjustments in respect of the efficiency plan, established based on the letter of the Banking Supervision Department of January 12, 2016, "Improvement of the operational efficiency of the banking system in Israel" (hereinafter: Efficiency Plan Adjustments), allocated in equal parts over five years, beginning in 2017. For additional information regarding the effect of the transitional directives and Efficiency Plan Adjustments, see section G below.

(2) A total of NIS 640 million as at December 31, 2018, and NIS 853 million as at December 31, 2017, was deducted from the total weighted balances of risk-adjusted assets, due to Efficiency Plan Adjustments, which, in accordance with the approval of the Banking Supervision Department, are allocated gradually over five years, beginning in 2017.

(3) Upon completion of the separation from the Isracard Group, the risk-adjusted assets of the Bank are expected to decrease by approximately NIS 12.5 billion, in respect of exposures not under the responsibility of the Bank. This process is also expected to have effects on supervisory capital, which depend on the manner of separation.

(4) The minimum required common equity Tier 1 capital ratio and the minimum required total capital ratio are 10% and 13.5%, respectively. A capital requirement at a rate representing 1% of the balance of housing loans at the dates of the financial statements was added to these ratios.

# Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

## E. Capital adequacy in consolidated data (continued)

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| | % | |
| **4. Significant subsidiaries** | | |
| **Isracard** | | |
| Ratio of common equity Tier 1 capital to risk components | **19.96%** | 19.83% |
| Ratio of Tier 1 capital to risk components | **19.96%** | 19.83% |
| Ratio of total capital to risk components | **21.03%** | 20.89% |
| Minimum common equity Tier 1 capital ratio required by the Banking Supervision Department[1] | **8.00%** | 8.00% |
| Minimum total capital ratio required by the Banking Supervision Department[1] | **11.50%** | 11.50% |
| **Bank Hapoalim Switzerland[3][4]** | | |
| Ratio of common equity Tier 1 capital to risk components | **(24.27%)** | 15.93% |
| Ratio of Tier 1 capital to risk components | **(24.27%)** | 15.93% |
| Ratio of total capital to risk components | **(24.18%)** | 16.00% |
| Minimum common equity Tier 1 capital ratio required by local regulation | **8.00%** | 8.00% |
| Minimum total capital ratio required by local regulation | **11.20%** | 11.20% |

| | Basel 2[2] | |
|---|---|---|
| **Bank Pozitif[3]** | | |
| Ratio of Tier 1 capital to risk components | **31.96%** | 25.56% |
| Ratio of total capital to risk components | **31.96%** | 25.81% |
| Minimum total capital ratio required by local regulation | **12.00%** | 12.00% |

(1) The required rates are in accordance with Proper Conduct of Banking Business Directive 472.
(2) Bank Pozitif has not implemented the Basel 3 directives; the data are therefore presented according to the Basel 2 directives.
(3) As reported to the local regulator.
(4) In July 2018, the Bank invested CHF 50 million in the capital of Hapoalim Switzerland. Following the loss that resulted mainly from the provision in connection with the investigation of the Bank Group's business with American customers, which the authorized organs of Hapoalim Switzerland only decided upon in March 2019, and in order for Hapoalim Switzerland to comply with the regulatory capital-adequacy ratio required in Switzerland and avoid being in violation of this requirement, the Bank invested CHF 250 million in the capital of Hapoalim Switzerland in the first quarter of 2019. After this capital injection, as at the date of publication of the financial statements, Hapoalim Switzerland is in compliance with the regulatory capital requirements.

## Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

NIS millions

### F. Capital components for the calculation of the capital ratio

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| **Common equity Tier 1 capital** | | |
| Total capital | **37,656** | 36,004 |
| Differences between total capital and common equity Tier 1 capital | **(72)** | 24 |
| Total common equity Tier 1 capital, before supervisory adjustments and deductions | **37,584** | 36,028 |
| Supervisory adjustments and deductions: | | |
| Deferred tax assets | **(34)** | (32) |
| Other supervisory adjustments and deductions – common equity Tier 1 capital | **(3)** | (24) |
| Total supervisory adjustments and deductions, before Efficiency Plan Adjustments – common equity Tier 1 capital | **(37)** | (56) |
| Total Efficiency Plan Adjustments – common equity Tier 1 capital* | **457** | 610 |
| Total common equity Tier 1 capital, after supervisory adjustments and deductions | **38,004** | 36,582 |
| **Additional Tier 1 capital** | | |
| Additional Tier 1 capital – instruments, before deductions | **977** | 1,221 |
| Additional Tier 1 capital – total deductions | **-** | - |
| Total additional Tier 1 capital, after deductions | **977** | 1,221 |
| Total Tier 1 capital, after supervisory adjustments and deductions | **38,981** | 37,803 |
| **Tier 2 capital** | | |
| Tier 2 capital – instruments, before deductions | **6,131** | 6,028 |
| Tier 2 capital – allowance for credit losses, before deductions | **3,911** | 3,700 |
| Total Tier 2 capital, before deductions | **10,042** | 9,728 |
| Deductions: | | |
| Total deductions – Tier 2 capital | **-** | - |
| Total Tier 2 capital | **10,042** | 9,728 |
| Total overall capital | **49,023** | 47,531 |

* The Efficiency Plan Adjustments, established in accordance with the letter of the Banking Supervision Department of January 12, 2016, on the subject "Improving the operational efficiency of the banking system in Israel," are allocated in equal parts over five years, beginning in 2017.

## Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

### G. Effect of transitional directives and Efficiency Plan Adjustments on the common equity Tier 1 capital ratio

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| | % | |
| **Ratio of capital to risk components** | | |
| Ratio of common equity Tier 1 capital to risk components before the effect of the transitional directives in Directive 299 and before the effect of the Efficiency Plan Adjustments | **11.00%** | 11.01% |
| Effect of the transitional directives | **-** | 0.04% |
| Ratio of common equity Tier 1 capital to risk components before the effect of the Efficiency Plan Adjustments | **11.00%** | 11.05% |
| Effect of Efficiency Plan Adjustments* | **0.16%** | 0.21% |
| Ratio of common equity Tier 1 capital to risk components | **11.16%** | 11.26% |

* The Efficiency Plan Adjustments, established in accordance with the letter of the Banking Supervision Department of January 12, 2016, on the subject "Improving the operational efficiency of the banking system in Israel," are allocated in equal parts over five years, beginning in 2017.

### H. Capital components subject to volatility

The Bank manages its capital-adequacy ratio with the aim of complying with the minimum capital requirements of the Banking Supervision Department. The capital of the Bank and the volume of risk-adjusted assets are subject to changes, due to the following factors, among others:

- Actuarial changes resulting from changes in the interest rate for the calculation of the Bank's liabilities, or other actuarial assumptions, such as mortality and departure rates.
- Effects of changes in the interest rate on capital reserves from securities available for sale.
- Effects of changes in the CPI and in exchange rates on asset balances.

Scale of effect of a decrease in capital and an increase in risk-adjusted assets on the common equity Tier 1 capital ratio as at December 31, 2018:

| | Effect of decrease of NIS 100 million in common equity Tier 1 capital | Effect of increase of NIS 1 billion in total risk-adjusted assets |
|---|---|---|
| | % | |
| Bank in consolidated data | **(0.03%)** | **(0.03%)** |
| Isracard | **(0.67%)** | **(1.25%)** |

## Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

### I. Capital-adequacy target

Pursuant to the circular of the Banking Supervision Department concerning minimum capital ratios, the Bank, as a banking corporation of significant importance (a banking corporation whose total balance sheet assets on a consolidated basis constitute at least 20% of the total balance sheet assets of the banking system in Israel), is required to maintain a minimum common equity Tier 1 capital ratio of 10% and a minimum total capital ratio of 13.5%. A capital requirement at a rate representing 1% of the balance of housing loans at the dates of the financial statements was added to the minimum capital ratios.

Accordingly, the minimum common equity Tier 1 capital ratio and the minimum total capital ratio of the Bank required by the Banking Supervision Department, on a consolidated basis, based on data as at December 31, 2018, stand at 10.24% and 13.74%, respectively.

Capital planning at the Bank is based on the work plan of the Bank and on regulatory directives, which are translated into risk-adjusted assets and changes in the various tiers of capital, while maintaining safety margins. Further to the foregoing, according to a resolution of the Board of Directors of the Bank, the target common equity Tier 1 capital ratio, beginning December 31, 2017, is 10.75%.

### J. Capital requirements in respect of debts secured by residential properties

On March 15, 2018, the Banking Supervision Department issued an update of Proper Conduct of Banking Business Directive 203 concerning debts secured by residential properties, pursuant to which loans fully secured by mortgages on residential properties at a financing rate higher than 60% would be weighted at a rate of 60%. The directive took effect on the date of its publication, and applies to loans secured by residential properties granted as of March 15, 2018. The effect of the foregoing on the common equity Tier 1 capital ratio, as at December 31, 2018, is an increase of approximately 0.02%.

### K. Improving operational efficiency

The effect of the costs of the efficiency plan on the ratio of common equity Tier 1 capital to risk components, estimated at approximately 0.16% as at December 31, 2018, are being allocated in equal parts over five years, beginning in 2017.

In June 2017, the Banking Supervision Department issued a letter entitled, "Improving the operational efficiency of the banking system in Israel – efficiency in the area of real estate," which encourages banking corporations to also examine, in addition to improved efficiency in personnel expenses, the possibility of reducing real-estate and maintenance costs of headquarters and management units, including through a reexamination of the geographical location of such units (hereinafter: "Real-Estate Efficiency").

In order to encourage the implementation of a plan for Real-Estate Efficiency, the Banking Supervision Department will approve reliefs for the banks in the area of capital adequacy.

The Banking Supervision Department has extended the period for implementation of the efficiency plan until December 31, 2019.

## Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

### L. Issuance of subordinated notes with a loss-absorption mechanism

Hapoalim Hanpakot (a wholly owned subsidiary that serves as the issuance arm of the Bank) performed a private offering for institutional investors, in April 2018, of CPI-linked subordinated notes (Series R), bearing annual interest at a rate of 1.42% from the date of listing on the stock exchange, with principal in a total amount of approximately NIS 1.1 billion, maturing in 2028 (with the option of early maturity, at the initiative of Hapoalim Hanpakot and with the approval of the Bank of Israel, in 2023). The subordinated notes include a mechanism for principal loss absorption, in accordance with Proper Conduct of Banking Business Directive 202, through partial or full write-off of principal in the event that the common equity Tier 1 capital ratio of the Bank falls below 5%, or in accordance with a decision of the Banking Supervision Department; the subordinated notes constitute part of the Tier 2 capital of the Bank. In addition, in June 2018, Hapoalim Hanpakot completed an offering to the public of CPI-linked subordinated notes (Series S), bearing annual interest at a rate of 1.59%, with principal in a total amount of approximately NIS 0.7 billion, maturing in 2028 (with the option of early maturity, at the initiative of Hapoalim Hanpakot and with the approval of the Bank of Israel, in 2023). These subordinated notes include a principal loss absorption mechanism, similar to the subordinated notes (Series R) described above, and constitute part of the Tier 2 capital of the Bank.

### M. Early redemption of capital notes in Tier 1 capital

The Bank carried out full early redemption of the subordinated notes in Series B (non-tradable), the balance of which as at December 31, 2018, totaled NIS 582 million, after the date of the financial statements, in February 2019.

### N. Buybacks by banking corporations

In June 2018, the Bank completed the execution of a share buyback plan, within which 1 million ordinary shares of the Bank were acquired for the implementation of the equity compensation plans adopted by the Bank. The acquisition plan was executed according to the rules in the guidance provided by the Israel Securities Authority regarding "safe harbor" protection in buybacks, following the approval of the plan by the Board of Directors of the Bank, and in accordance with the approval granted to the Bank by the Banking Supervision Department. For further details, see the Immediate Report of the Bank dated May 24, 2018.

In February 2019, the Banking Supervision Department issued a circular updating Proper Conduct of Banking Business Directive 332, "Buybacks by Banking Corporations," according to which banks will be able to perform buybacks of securities that they issue, subject to the fulfillment of certain conditions. Until now, the existing directive prohibited banks from performing buybacks, other than in exceptional cases, whereas the Companies Law permits buybacks, subject to fulfillment of conditions for distribution.

The circular establishes conditions under which banking corporations can perform buybacks of securities that they issue, including the following, among other matters:

- The approval of the Banking Supervision Department for the buyback, based on a buyback plan presented by the bank, is required.
- The volume of the buyback in each plan shall not exceed 3% of the issued and paid-up share capital of the banking corporation.

## Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

- The banking corporation shall act in accordance with the safe-harbor protection mechanism published by the Israel Securities Authority, to ensure that it has legal protection against allegations of use of insider information.
- The buyback offer shall not be directed to a particular group of shareholders (except in the case of a shareholder who is a qualifying customer, as defined in the directive).
- The buyback plan shall be approved by the board of directors of the bank.

### O. Guarantees pursuant to the Sale Law

On November 13, 2018, the Banking Supervision Department issued a circular updating the rate of the credit conversion coefficient for guarantees securing the investments of buyers of residences granted in accordance with the Sale Law. Pursuant to the circular, in guarantees as noted above, where the residence has not yet been transferred to the homeowner, the credit conversion coefficient is reduced from 50% to 30%. The effect of the circular, as at December 31, 2018, on the common equity Tier 1 capital ratio is an increase of approximately 0.12%, and the effect on the total capital ratio is an increase of approximately 0.15%.

### P. The subsidiary of the Bank in Turkey

In January 2019, a letter was received from the Bank of Israel concerning the subsidiary of the Bank in Turkey, Bank Pozitif. In the letter, the Bank of Israel stated that the activity of the Bank in Turkey exposes it to significant risks, and therefore, until the realization of the full holdings of the Bank in Bank Pozitif, the Bank is required to increase the risk weighting rates of risk-adjusted assets in respect of this activity, in the calculation of the consolidated capital ratio only, as follows:

- Beginning January 1, 2020, risk-adjusted assets in respect of the activity of Bank Pozitif will be weighted at a rate of at least 300%.
- Beginning January 1, 2021, the risk-adjusted assets will be weighted at a rate of at least 600%.

The Bank is examining possibilities for the sale of its full holdings, and in accordance with its strategic plan, has decided to gradually reduce the credit portfolio.

The effect of this instruction on the common equity Tier 1 capital ratio, based on data as at December 31, 2018, is a decrease of approximately 0.05%, under the assumption of weighting of the risk-adjusted assets at 300%, and a decrease of approximately 0.13%, under the assumption of weighting of the risk-adjusted assets at 600%.

### Q. Leverage ratio

The Bank applies Proper Conduct of Banking Business Directive 218, "Leverage Ratio" (hereinafter: the "Directive"). The Directive establishes a simple, transparent, non-risk-based leverage ratio, which serves as a complementary measurement to risk-based capital requirements, and which is designed to limit the accumulation of leverage at banking corporations.

The leverage ratio is expressed as a percentage, and is defined as the ratio of the capital measurement to the exposure measurement. Capital, for the purpose of measurement of the leverage ratio, is Tier 1 capital, as defined in Proper Conduct of Banking Business Directive 202, taking into consideration the transitional arrangements that have been established. The total exposure measurement is the total of balance sheet exposures, exposures to derivatives and to securities financing transactions, and off-balance sheet items.

## Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

Pursuant to the Directive, banking corporations shall maintain a leverage ratio of no less than 5% on a consolidated basis. Banking corporations whose total balance sheet assets on a consolidated basis constitute 20% or more of the total balance sheet assets in the banking system shall maintain a leverage ratio of no less than 6%. Based on the foregoing, the minimum required leverage ratio for the Bank is 6%.

The leverage ratio of the Bank and of significant subsidiaries in Israel is calculated according to Proper Conduct of Banking Business Directive 218, "Leverage Ratio." The leverage ratio of banking subsidiaries overseas is stated according to the regulatory directives and required ratios in each jurisdiction. Local regulation in Switzerland does not impose a minimum leverage ratio requirement.

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| | NIS millions | |
| **a. Consolidated data** | | |
| Tier 1 capital* | **38,981** | 37,803 |
| Total exposures* | **518,980** | 513,037 |
| | % | |
| Leverage ratio | **7.51%** | 7.37% |
| Minimum leverage ratio required by the Banking Supervision Department | **6.00%** | 6.00% |
| **b. Significant subsidiaries** | | |
| **Isracard** | | |
| Leverage ratio | **12.62%** | 12.50% |
| Minimum leverage ratio required by the Banking Supervision Department | **5.00%** | 5.00% |
| **Bank Pozitif** | | |
| Leverage ratio | **26.56%** | 14.29% |
| Minimum required leverage ratio according to local regulation | **3.00%** | 3.00% |

* These data also include Efficiency Plan Adjustments, established based on the letter of the Banking Supervision Department of January 12, 2016, "Improvement of the operational efficiency of the banking system in Israel." The effect of the costs of the efficiency plan on the leverage ratio as at December 31, 2018, estimated at approximately 0.09%, is allocated in equal parts over five years, beginning in 2017.

| | Effect of decrease of NIS 100 million in Tier 1 capital | Effect of increase of NIS 1 billion in total exposures |
|---|---|---|
| | % | |
| **c. Effects on the leverage ratio as at December 31, 2018** | | |
| Bank in consolidated data | **(0.02%)** | **(0.01%)** |
| Isracard | **(0.42%)** | **(0.51%)** |

# Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

## R. Liquidity coverage ratio

The Bank calculates its stand-alone and consolidated liquidity ratios daily, with a division into NIS and foreign currency, and monitors this ratio at its subsidiaries (which are required to comply with internal liquidity limits adapted to the nature of their activity). These ratios are reported as an average of the daily observations. The number of observations used to calculate the averages in the reported quarter is 64. Credit-card companies are exempt from independent calculations, but are included in the consolidated data.

| | **For the three months ended December 31, 2018** | For the three months ended December 31, 2017 |
|---|---|---|
| | % | |
| **a. Consolidated data** | | |
| Liquidity coverage ratio | **120%** | 122% |
| Minimum liquidity coverage ratio required by the Banking Supervision Department | **100%** | 100% |
| **b. Bank data** | | |
| Liquidity coverage ratio | **118%** | 120% |
| Minimum liquidity coverage ratio required by the Banking Supervision Department | **100%** | 100% |
| **c. Significant subsidiaries*** | | |
| **Bank Hapoalim Switzerland** | | |
| Liquidity coverage ratio according to local regulation | **266%** | 200% |
| Minimum liquidity coverage ratio required by local regulation** | **90%** | 80% |

* At this stage, credit-card companies are not required to comply with the circular, and shall continue to fulfill the requirements of Proper Conduct of Banking Business Directive 342. At a later date, credit-card companies will be required to comply with a supervisory quantitative model adapted to the characteristics of their operations. Bank Pozitif is not subject to a liquidity coverage ratio directive in Turkey.

** The minimum required liquidity coverage ratio according to local regulation increased by 10% annually, up to 100% in 2019.

The consolidated ratio and the stand-alone ratio for the banking corporation are calculated daily, and reported as an average of daily observations.

## Note 25 Contingent Liabilities and Special Commitments

NIS millions

### A. Off-balance sheet commitment in respect of activity, based on extent of collection[1] at year end

| | December 31 | |
|---|---|---|
| | **2018** | 2017 |
| Credit balance from deposits based on extent of collection[2] | | |
| Israeli currency unlinked | **28** | 28 |
| Israeli currency linked to the CPI | **1,313** | 1,493 |
| Foreign currency | **202** | 198 |
| Total | **1,543** | 1,719 |

(1) Credit and deposits from deposits the repayment of which to the depositor is contingent on the collection of the credit (or deposits), with a margin or collection fee (instead of a margin).
(2) Standing loans and government deposits granted in respect thereof, in the amount of NIS 87 million (2017: NIS 76 million), were not included in this table.

Flows in respect of collection fees and interest margins in respect of this activity, based on extent of collection[1]:

| | **December 31, 2018** | | | | | | | December 31, 2017 |
|---|---|---|---|---|---|---|---|---|
| | Up to one year | Over 1 year up to 3 years | Over 3 years up to 5 years | Over 5 years up to 10 years | Over 10 years up to 20 years | Over 20 years | Total | Total |
| **CPI-linked segment[2]** | | | | | | | | |
| Future contractual flows | **13** | **18** | **9** | **9** | **4** | **1** | **54** | 71 |
| Expected future cash flows after management estimate of early repayments | **13** | **16** | **7** | **6** | **2** | **-** | **44** | 58 |
| Capitalized expected cash flows after management estimate of early repayments[3] | **13** | **16** | **7** | **6** | **2** | **-** | **44** | 58 |

Information on loans granted during the year at mortgage banks:

| | December 31 | |
|---|---|---|
| | **2018** | 2017 |
| Loans from deposits, based on extent of collection | **88** | 44 |
| Standing loans | **36** | 3 |

(1) Credit and deposits from deposits the repayment of which to the depositor is contingent on the collection of the credit (or deposits), with a margin or collection fee (instead of a margin).
(2) Including the foreign-currency segment.
(3) The capitalization rate was 0.32% (2017: -0.16%).

## Note 25 Contingent Liabilities and Special Commitments (continued)

NIS millions

### B. Contingent liabilities and other special commitments

| | December 31 | |
|---|---|---|
| | **2018** | 2017* |
| **1.** Commitment to purchase securities | **460** | 397 |
| **2.** Construction and acquisition of buildings and equipment | **11** | 4 |
| **3.** Long-term rent contracts – rent for buildings and equipment in commitments payable in future years: | | |
| First year | **139** | 153 |
| Second year | **134** | 147 |
| Third year | **124** | 126 |
| Fourth year | **115** | 115 |
| Fifth year | **107** | 107 |
| Over five years | **887** | 901 |
| Total rent on buildings and equipment | **1,506** | 1,549 |

* Restated.

**4.** In March 2008, the Bank sold provident fund member portfolios to Psagot Provident and Pension Funds Ltd. (hereinafter: "Psagot"). Subsequent to the sale, the Bank guaranteed the payment on the date of entitlement of at least the nominal amount of the fund's receipts in the member's account, less deductions permitted by law to cover the fund's expenses, tax deductions, and any amount that the fund was obligated to repay to the member's employer, all in accordance with the approved articles of association of each fund.

As part of the sale, Psagot undertook a commitment to transfer the Bank's guarantee to an insurer or other party approved by the Supervisor when seven years have elapsed from the date of completion of the transaction, in a manner granting the Bank final and absolute release from its guarantee. The articles of the funds of Psagot state that as long as the Supervisor has not approved the replacement or assignment of the Bank's guarantee, the Bank's guarantee for some of the members of the provident funds shall remain in effect. As at the balance sheet date, the guarantee granted to Psagot has been extended until the end of 2019, subject to an indemnity letter received from Psagot by the Bank. The balance of nominal amounts for which the Bank is a guarantor amounted to NIS 1,627 million at the balance sheet date, and the balance of members' accounts amounted to NIS 6,997 million at the balance sheet date. It is emphasized that the "fair value" of the Bank's liability in respect of the aforesaid guarantees as at December 31, 2018, is immaterial.

**5.** On February 18, 2016, the general meeting of shareholders of the Bank, in accordance with the recommendation of the Remuneration Committee and of the Board of Directors, approved the Bank's commitment to indemnify directors and officers of the Bank, who serve and/or may serve from time to time, in whose indemnification letters the controlling shareholder of the Bank may be considered an interested party, for a fixed period ending December 31, 2024, as recommended by the Audit Committee of the Board of Directors of the Bank.

The Bank's commitment pursuant to the indemnification letters will also apply to events that occurred prior to the issuance and renewal of the letters.

## Note 25 Contingent Liabilities and Special Commitments (continued)

The indemnification letters for these officers are identical in terms to the indemnification letters given to the other directors and officers of the Bank, including the CEO of the Bank, approved by the general meeting of shareholders of the Bank on January 3, 2012 (hereinafter: the "General Meeting"), in whose indemnification letters the controlling shareholder of the Bank does not have a personal interest. At the report date, all of the directors and officers serving at the Bank hold indemnification letters unlimited in duration. In the letters of indemnity, the Bank undertakes a commitment to indemnify the officers, among other matters, for monetary indebtedness imposed upon them in connection with the events described (up to a cumulative indemnity amount for all officers of 25% of the shareholders' equity of the Bank, according to its most recent known financial statements before the actual indemnity payment), and to indemnify them for reasonable litigation expenses, including attorneys' fees, in various proceedings (including administrative proceedings), all as specified in the letter of indemnity and in accordance with the directives thereof. Further to the foregoing, in 2018 the Bank bore the litigation costs of past and present officers in various proceedings (attorneys' fees in connection with derivative proceedings and the investigation of the United States authorities), in negligible amounts.

**6.** The Bank has undertaken a commitment to indemnify subsidiaries, in order to comply with the limits of the Proper Conduct of Banking Business Directives (the ratio of capital to risk components and the limits on indebtedness of a single borrower and of related persons), and in order to receive an exemption from implementation of Proper Conduct of Banking Business Directives 201-211, "Capital Measurement and Adequacy." This indemnification will expire automatically, without the need for any action to be taken by any of the parties, when the Bank ceases to hold any means of control in the company, on its own or through companies under its full ownership.

**7.** Hapoalim Hanpakot Ltd., which is a consolidated company and an "auxiliary corporation" as defined in the Banking (Licensing) Law, 1981 (hereinafter: "Hapoalim Hanpakot"), and which is engaged in the issuance of subordinated notes and bonds to the public, in accordance with shelf offer reports published based on a shelf prospectus, for the purpose of depositing the proceeds at the Bank, made decisions, in 1988-2018, to approve indemnification in respect of prospectuses for the issuance of bonds (Series 29-36) and subordinated notes (Series J-S) published during these years, including all matters arising from and/or related thereto, directly or indirectly (hereinafter: the "Event"), for directors and other officers, as well as for the legal advisors of the issuances (hereinafter: the "Indemnification Recipients"), in respect of monetary indebtedness to be imposed upon them due to actions they performed in their capacity as officers of the company and/or in providing services to the company, as detailed in the prospectuses published in respect of the issuances. With respect to the issuance of the bonds (Series 29-36), and with respect to the subordinated notes (Series J-S) and subordinated capital notes (Series 1), the indemnity ceiling for all of the Indemnification Recipients in aggregate was set at a maximum amount not to exceed 10% of the total amount of the facility established for the issuance pursuant to the aforesaid prospectuses. Note that the Bank is a guarantor for the indemnification of the directors and officers. In addition, Hapoalim Hanpakot commits from time to time to grant indemnification to trustees of the debt certificates that it issues, within the relevant trust notes.

## Note 25 Contingent Liabilities and Special Commitments (continued)

**8.** Within the shelf offer report for the listing of bonds (Series 35) and subordinated notes (Series R) published by Hapoalim Hanpakot on June 4, 2018 (hereinafter: the "Shelf Offer Report"), Hapoalim Hanpakot undertook a commitment to grant the pricing underwriter indemnification for a monetary indebtedness imposed upon the underwriter in favor of another person pursuant to a verdict due to a misleading detail in the Shelf Offer Report or in the shelf prospectus, and in respect of reasonable litigation expenses, or in connection with a criminal indictment in which the underwriter was acquitted, or in which the underwriter was convicted of an offense that does not require mens rea, or due to an investigation or proceeding conducted against the underwriter by the government agency authorized to conduct the investigation or proceeding, and which concluded without an indictment, and without any financial obligation imposed as a substitute for a criminal proceeding (as defined in the Companies Law, 1999), or which concluded without an indictment, but with the imposition of a financial obligation as a substitute for a criminal proceeding, for an offense that does not require proof of mens rea, all due to a misleading detail in the Shelf Offer Report. The total indemnity amount, in any event, shall not exceed the total value of the securities listed pursuant to the Shelf Offer Report at the date of listing thereof (linked to the consumer price index, beginning with the known CPI at the date of signing of the underwriting agreement) (hereinafter: the "Maximum Indemnity Amount"). The foregoing notwithstanding, the amount paid in respect of the indemnity shall not exceed, in aggregate, 25% of the shareholders' equity of Hapoalim Hanpakot, according to its most recent consolidated financial statements (audited or reviewed) at the time of the demand for indemnification by the underwriter (hereinafter: the "Interim Amount"), if there is a reasonable concern that the payment thereof would prevent it from meeting its existing and expected obligations (with the exception of the obligations of Hapoalim Hanpakot towards its controlling parties) at the date of the demand for indemnification by the underwriter (hereinafter: the "Condition"). However, when such reasonable concern ceases to exist, the underwriter shall be entitled to supplementation of the indemnity up to the amount of the difference between the Maximum Indemnity Amount and the Interim Amount, all as stated in the underwriting agreement and subject to the directives thereof.

**9.** Under an agreement, a contingent liability exists between the TASE Clearing House and the members of the Tel-Aviv Stock Exchange Ltd. (including the Bank) with regard to mutual indemnification among the members of the TASE Clearing House to pay money, in full or in part, or securities cleared, in full or in part, which one of the members of the TASE is obligated to pay or deliver, or if the Clearing House has paid the said unpaid monies or purchased the undelivered cleared securities and delivered them to the designated recipient to which they are owed.

Each member's share of the indemnification is equivalent to the ratio of the member's financial turnover to the total financial turnover of all of the members responsible for payment to the Clearing House for the loss, for a period of twelve months ending on the last day of the month preceding the month in which the event that caused the loss occurred.

**10.** Consolidated companies of the Bank are engaged in a range of trust services in the business, private, and personal fields, in favor of various beneficiaries who own monies, rights, and other assets, which are held and managed according to the instructions of the owners. In the area of business trusts, the companies serve as trustees to ensure that the terms of business agreements between parties are fulfilled. In the area of private trusts, the companies handle, among other matters, wills, estate management, endowments, non-profit associations, and societies.

## Note 25 Contingent Liabilities and Special Commitments (continued)

**11.a.** In April and May 2018, the authorized organs and the general meeting of Isracard, Europay (Eurocard) Israel Ltd. ("Europay"), and Poalim Express Ltd. ("Poalim Express") approved the granting of amended letters of indemnity (further to the letters of indemnity the resolution regarding the granting of which to the officers was passed in 2012) and letters of exemption from liability for the directors and officers of each of the aforesaid companies and to those serving on behalf of these companies as officers in affiliates of Isracard (all as defined in the text of the letters of indemnity), all as they may be from time to time, in accordance with the terms of the Companies Law, 1999. The maximum amount of the indemnification under this obligation to all of the directors and other officers, cumulatively, in respect of the liabilities defined in the letters of indemnity, shall not exceed 30% of shareholders' equity according to the most recent annual or quarterly consolidated financial statements known prior to the actual indemnification payment, with respect to the letters of indemnity of Isracard and Europay, and shall not exceed 50% of shareholders' equity, as noted, with respect to the letters of indemnity of Poalim Express.

**b.** Pursuant to an arrangement between Isracard and the credit-card companies Leumi Card and CAL, which was approved by the Competition Tribunal on March 7, 2012 (hereinafter: the "Arrangement"), the average issuer fee shall stand at 0.7% from July 1, 2014 to the end of the period of the Arrangement (December 31, 2018). On November 25, 2018, the Banking Order (Service to Customers) (Supervision of Cross-Clearing Services for Charge Card Transactions and Immediate Debit Transactions), 2018, was published in the Official Gazette of the Israeli Government, further to the publication of the Bank of Israel in February 2018 regarding the final trajectory for reduction of the interchange fee. The interchange fee in deferred debit transactions will be reduced according to the following trajectory: a decrease in the interchange fee from 0.7% to 0.6% beginning January 1, 2019, and a decrease in the interchange fee from 0.6% to 0.575% beginning January 1, 2020. a decrease in the interchange fee from 0.575% to 0.55% beginning January 1, 2021; a decrease in the interchange fee from 0.55% to 0.525% beginning January 1, 2022; and a decrease in the interchange fee from 0.525% to 0.5% beginning January 1, 2023. The order also stated that the rate of the interchange fee for a business that constitutes a "public institution," as defined in the aforesaid draft, would be 0.55% until January 1, 2022, and after that date the interchange fee applicable to these businesses would be the same rate applied to all businesses.

With regard to the fee paid for immediate debit transactions, the interchange fee will decrease from 0.3% to 0.275% beginning January 1, 2021; and the interchange fee will decrease from 0.275% to 0.250% beginning January 1, 2023.

## Note 25 Contingent Liabilities and Special Commitments (continued)

**c.** In October 1985, Bank Hapoalim Switzerland leased, for a period of approximately 100 years, a building used for its activity, for an annual leasing fee, linked to the CPI, in the amount of CHF 2 million (at this time, approximately CHF 3 million). Close to the beginning of the period of the lease, Bank Hapoalim Switzerland divided the leased property and sold approximately half of the lease to a third party (a foreign banking corporation), which has borne half of the annual leasing fee since then. To the best of the knowledge of the Bank, the banking corporation wished to sell its share of the leased property, but is engaged in a legal proceeding with the owner of the property (the lessor) with regard to its liability for the leasing fee after the sale. During the aforesaid legal proceeding, the lessor notified the Bank that according to its position, Bank Hapoalim Switzerland is responsible for the payment of the full leasing fee in respect of the property in its entirety, and in particular if the court rules that the banking corporation will not bear liability for the leasing fee after the sale of its share. Bank Hapoalim Switzerland disputes this position, and according to the position of its legal advisors, it is unlikely that responsibility for the share of the banking corporation in the lease will be imposed upon Bank Hapoalim Switzerland, taking into consideration, among other matters, the fact that it sold part of its interest in the lease, as noted, and taking into account the robustness of the lessee and the fact that it is a banking corporation. Bank Hapoalim Switzerland has a provision in the amount of approximately CHF 23 million in respect of the difference between the contractual leasing fee for its share of the property and the fair value of the liability in respect of its share for the remainder of the period of the lease. The additional exposure in respect of the leasing fee for the share of the banking corporation stands at approximately CHF 23 million, in respect of which no provision was made, based on the evaluation of the legal advisors of Bank Hapoalim Switzerland, as noted above.

**d.** In the fourth quarter of 2018, a transaction was completed for the sale of the global private banking customer asset portfolio of Hapoalim Switzerland at its branches in Switzerland and Luxembourg to Bank J. Safra Sarasin AG and Banque Safra Sarasin (Luxembourg) SA (jointly, "Safra Sarasin"). As part of the transaction, indemnity arrangements were agreed upon, pursuant to which, among other matters, Hapoalim Switzerland will indemnify Safra Sarasin for payments and expenses of the purchaser in connection with legal proceedings and investigations of government agencies arising from events preceding the completion of the transaction. The Bank is a guarantor for the commitments of Hapoalim Switzerland towards the purchaser.

## Note 25 Contingent Liabilities and Special Commitments (continued)

### C. Legal proceedings

The Bank Group (the Bank and its consolidated subsidiaries) is a party to legal proceedings, including petitions to certify class actions, taken against it by its customers, former customers, and various third parties. The causes of the claims against the Bank Group are varied and wide-ranging.

The additional exposure in respect of claims filed against the Bank on various matters, as at December 31, 2018, that have a "reasonably possible" probability of materialization amounts to approximately NIS 291 million.

**a.** Set out below are details of the claims, including petitions to certify and administer claims as class actions in which the amount claimed (at the filing date) is material (claim amounts listed below are the amounts noted in the claim statements). In the opinion of the Bank's Board of Management, based on the opinion of the management of the relevant consolidated companies and based on legal opinions with regard to the likely outcome of these claims, the financial statements include sufficient provisions, where necessary, in accordance with generally accepted accounting principles, in respect of all probable losses arising from these claims.

**1.** On February 19, 2019, the District of Columbia Court of Appeals in the United States accepted an appeal filed with regard to the verdict of the Federal Court of Washington DC, which dismissed in limine the claim filed by several Palestinian claimants against a long list of defendants, including the Bank. According to the claimants, the claim concerns "war crimes in East Jerusalem, the Judea and Samaria regions, and the Gaza Strip," and assistance allegedly granted by the defendants for these activities. With respect to the Bank, the allegation is that this assistance takes the form, among other matters, of monetary transfers performed through the Bank's branches in the United States, financing of activity in Judea and Samaria, etc. The claim is in the amount of USD 1 billion, against all of the defendants. In contradiction of the position of the lower court, the appellate court ruled that the claim was not entirely political and nonjusticiable, and that at least some of the sections of the claim could be examined by judicial means. Upon acceptance of the appeal, the case was remanded for hearing by the Federal Court of Washington DC.

**2.** A claim statement and a petition to certify the claim as a class action against the Bank were filed with the Central District Court on June 27, 2017. The claim does not state an amount. The petition concerns the allegation that the Bank unlawfully charged individuals or small businesses a financing fee, when it included, in this fee, a percentage of the total cost of construction of the home plus the cost of the land, rather than only a percentage of the amount of the credit granted by the Bank to the customer. In a hearing held on February 13, 2018, the court ruled to accept the position of the Bank of Israel (the Banking Supervision Department) regarding the dispute between the parties. On June 10, 2018, a position was submitted in which the Bank of Israel supported the position of the Bank, to which the petitioner objected. Following a pretrial proceeding in which the petitioner was asked to give notice of his position with regard to the continued administration of the petition to certify the claim as a class action, on December 31, 2018, the petitioner, with the consent of the Bank, filed a motion to withdraw from the petition to certify the claim as a class action and to dismiss his personal claim. The withdrawal motion was approved on January 3, 2019, thereby concluding the proceeding.

## Note 25 Contingent Liabilities and Special Commitments (continued)

### C. Legal proceedings (continued)

**3.** A claim statement and a petition to certify the claim as a class action against the Bank were filed with the District Court of Tel Aviv on January 11, 2017. The claimant set the amount of the claim at approximately NIS 591 million, but requested permission to amend this amount according to the facts that emerge.

The petitioner alleges that the Bank collects fees for bounced checks from customers whose accounts have been restricted with respect to check drawing, in contradiction of the directives of the law, or in accordance with regulations enacted without authority and in contradiction of the directives of primary legislation. Among other matters, the petitioner argues that if a person's account has been restricted, checks drawn by that person should not be considered checks, but are merely pieces of paper; thus, refusal to accept them does not constitute a service for which the collection of a fee is permitted. The petitioner argues that the collection of fees for a bounced check due to the fact that the account is restricted, in both the drawn account and the credited account, constitutes a violation of the duties that apply to the Bank in its relationships with its customers. The District Court handed down its ruling on February 21, 2019, dismissing the claim.

**4.** A claim and a petition to certify and administer the claim as a class action against three credit-card companies, including Isracard Ltd., which is a subsidiary of the Bank, were filed with the Central District Court on June 9, 2016. The damage claimed against all of the respondents is estimated by the petitioners at approximately NIS 4.2 billion in a "conservative" scenario, approximately NIS 6.9 billion in a "reasonable" scenario, and approximately NIS 8.4 billion in an "extreme" scenario. The claimants allege that the three credit-card companies are parties to a restrictive arrangement that has not been approved as required by law, in which, in immediate debit and prepaid transactions, they unlawfully delay funds owed to the merchants, and they charge the merchants a fee calculated based on the interchange fee, as is the practice for deferred-payment transactions. It is further alleged that sections of the merchant agreement constitute depriving conditions in a uniform contract. After the district court expressed its position regarding its lack of jurisdiction to hear some of the matters raised in the petition, the petitioner filed an originating motion with the Restrictive Trade Practices Tribunal. This proceeding was dismissed in limine in October 2018. An appeal thereof was filed and a preliminary hearing of the appeal was scheduled for June 18, 2019. The proceeding at the district court is stayed at this time. Concurrently with the filing of the appeal, a petition was also filed with the High Court of Justice against the decision of the Competition Authority to refrain from approaching the tribunal in order to open the agreement.

**5.** A claim and a petition to certify the claim as a class action against the Bank were filed with the District Court of Tel-Aviv on June 24, 2015. The amount of the claim noted in the claim statement is approximately NIS 500 million. The petition concerns the allegation that customers of the Bank who were, or who are, entitled to be included in the category of a "small business," as defined in the Banking Rules (Service to Customers) (Fees), 2008, paid fees that were not in accordance with the fee list applicable to small businesses, and the Bank did not notify these customers that the possibility of classifying them as small businesses existed. A motion to consolidate the hearing with similar petitions filed against other banks was approved. The Bank has given notice that it is not interested in an additional mediation proceeding in the consolidated claims. A preliminary hearing of the case was held on December 19, 2018.

## Note 25 Contingent Liabilities and Special Commitments (continued)

### C. Legal proceedings (continued)

**6.** A claim and a petition to certify the claim as a class action against several credit-card companies, including Isracard Ltd. and Poalim Express Ltd., both of which are subsidiaries of the Bank, were filed with the District Court of Tel-Aviv on July 7, 2014. The amount of the class-action suit has been set by the petitioners, as an estimate only, at a total of NIS 200 million against all of the respondents. The petitioners allege that the respondents perform conversions into NIS of transactions executed in foreign currency in a manner that constitutes an additional fee not properly disclosed to customers, and that the respondents thereby violate the directives of various laws. The hearing of the petition was consolidated with similar petitions filed against several banks. In March 2018, the district court denied the certification petition. The petitioners filed an appeal of this verdict with the Supreme Court, and a hearing of the appeal was scheduled for April 1, 2019.

**7.** A claim and a petition to certify the claim as a class action against the Bank were filed with the Central District Court on January 12, 2014. The amount of the claim noted in the claim statement is NIS 546 million.

According to the petitioners, the Bank entered into an arrangement with the Isracard Group to issue bank credit cards for its customers, the terms established in which caused the customers of the Bank to pay the highest rate of card fees to the Isracard Group, compared to the rate of fees paid by customers of other banks that contracted with the Isracard Group for the issuance of bank credit cards. According to the petitioners, the Bank is acting in a conflict of interest and preferring the interests of the Bank and of the Isracard Group over the interests of the customers of the Bank. A mediation proceeding between the parties is in progress.

**8.** A claim and a petition to certify the claim as a class action against five banks, including the Bank, and against the Supervisor of Banks, the Governor of the Bank of Israel, and the Supervisor of Competition as formal respondents, were filed with the District Court of Tel Aviv on August 28, 2013. The total amount of the claim against all of the banks was set at approximately NIS 10.5 billion. The claimants alleged that the defendant banks collect a fee, unlawfully and without due disclosure to customers, in connection with foreign-currency conversion and transfers. According to the claimants, a customer who executes a transaction for the conversion of foreign currency pays a fee for the conversion services, in addition to the fee listed in the bank's fee list, which according to the allegation is the difference between the rate at which the banks buy foreign currency on the interbank market and the rate at which they sell foreign currency to customers, without due disclosure and unlawfully. It is further alleged that in performing this activity, the respondent banks maintain a restrictive arrangement.

The claim was amended several times after the filing, at the request of the petitioners. An amended certification petition was filed on February 4, 2014, in which, among other matters, an argument was added pursuant to which foreign-currency conversion transactions according to an "order rate" are "future transactions," and the Bank allegedly violated the directives of the law in connection with such transactions; the amount of the original claim was also amended, to approximately NIS 11 billion. Later, on April 23, 2015, pursuant to a ruling of the court, the petitioners filed an amended, abridged petition for certification of a class action (the "Abridged Petition").

## Note 25 Contingent Liabilities and Special Commitments (continued)

### C. Legal proceedings (continued)

Several petitions to certify class actions on matters similar, in their opinion, to the claims described above have been filed over the years by various petitioners, against various respondents (the "Additional Petitions"), and motions to unify the cases have been filed by some of the petitioners. On October 25, 2015, the court ruled to consolidate the Abridged Petition with some of the Additional Petitions, including the claim described in Section 7 above. On March 1, 2018, a verdict was received accepting the position of the Bank and dismissing the petition to certify the claim. On March 18, 2018, it came to the Bank's attention that an appeal against the verdict had been filed with the Supreme Court. A hearing of the appeal has been scheduled for April 1, 2019.

**9.** A claim and a petition to certify the claim as a class action against Psagot Provident and Pension Funds Ltd. ("Psagot"), in its capacity as manager of the provident fund Gadish, were filed with the District Court of Tel Aviv in April 2012. The amount of the class-action suit was set at approximately NIS 3,840 million. The petition was approved by the court. The petitioner's arguments concern the management of money in the accounts of deceased members. Among other matters, the petitioner alleges that Psagot does not make sufficient effort to inform beneficiaries of the existence of the fund; that Psagot imposes difficulties on beneficiaries who seek information about the fund; and that Psagot raised management fees in the accounts of deceased members without sending notification in advance. Psagot has notified the Bank that to the extent that causes emerge during the investigation of the claim that pertain to the manner of management of the Gadish fund while it was managed by Gadid Poalim Ltd., formerly Gad-Gmulim Provident Fund Management Company Ltd., which is a subsidiary of the Bank (hereinafter: "Gadid"), during the period prior to March 24, 2008 (the date of completion of the sale of the management rights of the provident fund Gadish by Gad-Gmulim to Psagot Gemel), Psagot retains its rights to indemnification by Gadid, backed by the Bank, in accordance with the sale agreement signed by the parties.

In March 2016, a petition was filed to amend the claim statement, requesting an increase of the amount of the claim against Psagot to approximately NIS 10 billion (hereinafter: the "Enlarged Claim Amount"). It is noted that the Enlarged Claim Amount refers to all of the provident funds managed by Psagot (as opposed to Gadish alone), and with respect to Gadish, also refers to the period subsequent to its acquisition by Psagot (in March 2008). It is further noted that approximately half of the Enlarged Claim Amount refers to money located in the member accounts managed by Psagot, and that the remedy requested in respect of this money is declarative only. A mediation proceeding between the parties is in progress.

**10.** On October 27, 2016, a claim and a petition to certify the claim as a class action were filed with the District Court of Tel-Aviv against Psagot Provident and Pension Funds Ltd. (hereinafter: "Psagot"), in its capacity as a manager of provident funds. The amount of the claim has been set at NIS 1 billion. The petitioners allege that the claim is complementary to the class-action suit described in Section 9 above. The claim concerns (alleged) violations against members, beneficiaries, and the heirs thereof in connection with risk-type collective life insurance acquired by Psagot, or by its predecessors, as manager of various provident funds, financed by the members. Psagot has informed the Bank that it retains all of its rights in accordance with the agreement for the sale of the management rights of the provident fund Gadish by Gad-Gmulim Provident Fund Management Company Ltd., a subsidiary of the Bank, to Psagot.

## Note 25 Contingent Liabilities and Special Commitments (continued)

### C. Legal proceedings (continued)

The petitioners allege violation of the duties of Psagot and its predecessors, in that they failed to act to obtain insurance compensation from the insurer, and thereby obstructed the transfer of such compensation to the beneficiaries/heirs of the member. The petitioners further allege that Psagot and its predecessors avoided notifying the beneficiaries/heirs of the member of the existence of the life-insurance policy, of Psagot's right to file a claim to receive insurance compensation, and of the short limitation period. Psagot has filed a petition to transfer the hearing of this petition to the Labor Court. This petition is still pending. A pretrial hearing was held in May. The petition of Psagot of November 2018 was approved, and the Bank was given an order, on December 9, 2018, for the disclosure of information and transfer thereof to the representative of the petitioner. The Bank responded to this order on January 6, 2019. Another hearing has been scheduled for this case.

**11.** On August 16, 2010, a claim was filed with the US Bankruptcy Court of the Southern District of New York (hereinafter: the "Bankruptcy Court") against Bank Hapoalim (Switzerland) Ltd., a wholly-owned subsidiary of the Bank (hereinafter: "Hapoalim Switzerland"), and against others. The claimant, Fairfield Sentry Limited, through its liquidators (hereinafter: the "Fund"), was a fund in which customers of Hapoalim Switzerland invested. This claim has been amended and expanded. The amount of the claim stands at approximately USD 27 million.

The claim against Hapoalim Switzerland is one of many similar claims filed by the Fund, demanding that various defendants return to the Fund all redemptions that they withdrew from the Fund during the several years preceding its liquidation (hereinafter: the "Fairfield Claims").

A ruling of the court in the British Virgin Islands (where the Fund is incorporated) in September 2011 determined that the Fund received fair consideration at the time for redemptions withdrawn from the Fund. An appeal of this ruling filed with the Eastern Caribbean Court of Appeals was denied. A petition for permission to appeal, filed by the Fund with the Privy Council in England, was also denied. In addition, in September 2011, the Federal Court of New York ruled that the Bankruptcy Court does not have material jurisdiction to hear the Fairfield Claims. However, in a discussion of a similar recovery claim related to the Madoff affair, the Federal Court of New York ruled in January 2013 that the Bankruptcy Court has jurisdiction to recommend proposed factual findings and juridical conclusions. On August 6, 2018, the Bankruptcy Court determined that it did not have jurisdiction with respect to the claims of the liquidators, as the only basis for such jurisdiction was the registration agreements of the Fund, which include choice of law and forum selection clauses. The Bankruptcy Court stayed the dismissal of any of the Fairfield claims, including the claims against Bank Hapoalim (Switzerland) Ltd., until an additional factual development, based on which it will be determined whether the Bankruptcy Court has jurisdiction to hear these arguments.

In a separate ruling on December 6, 2018, the Bankruptcy Court dismissed the component of the Fairfield Claims based on the common law and contract law of the Virgin Islands, but denied the motion to dismiss with respect to the causes based on the Insolvency Act in the Virgin Islands. Thus, the component pertaining to the claim of the liquidators against Hapoalim Switzerland based on the Insolvency Act in the Virgin Islands remains in effect, subject to additional rulings of the court, including with regard to the jurisdiction of the Bankruptcy Court on the matter of Hapoalim Switzerland.

## Note 25 Contingent Liabilities and Special Commitments (continued)

### C. Legal proceedings (continued)

In addition to the aforesaid claim, on March 29, 2012, Attorney Irving Pickard, liquidator of Bernard L. Madoff Investment Securities LLC (hereinafter: "Madoff"), filed a claim with the Bankruptcy Court against the Bank and against Hapoalim Switzerland. The claim is in the amount of approximately USD 27.5 million, of which approximately USD 26 million against Hapoalim Switzerland. The claim demands that the defendants reimburse the Madoff liquidation fund for redemptions withdrawn from the Fund and from the Kingate Fund during the period preceding Madoff's bankruptcy. This refers to funds in which customers of the Bank and of Hapoalim Switzerland invested at the time, which in turn invested in Madoff. On November 11, 2016, the Bankruptcy Court dismissed the restitution demands of the liquidator against all of the defendants (including the Bank and Hapoalim Switzerland) that received redemptions from the foreign-based feeder funds, but on February 25, 2019, the Court of Appeals in the United States handed down a ruling rescinding the aforesaid ruling of the Bankruptcy Court. It should be noted that a substantial part of the amount of the reimbursement demanded in this claim (approximately USD 22 million of the total USD 27.5 million) corresponds to the amounts claimed by the Fund in the claim described above; therefore, there does not seem to be a risk of double payment in respect of the corresponding amounts.

**b.** Also pending against the Bank Group are claims, including petitions to certify claims as class actions, as detailed below, in which the probable outcome of the legal proceedings cannot be assessed at this stage, in the opinion of the Bank's Board of Management, based on the opinion of the management of the relevant consolidated companies and on legal opinions; accordingly, no provision has been made in respect thereof:

**1.** A claim statement and a petition to certify the claim as a class action against the Bank were filed with the District Court of Tel Aviv on January 30, 2019. The claim does not state an amount. The petition concerns the allegation that the Bank charges its customers a fee for the service of endorsement of guarantees pursuant to the Sale Law, although the service and the associated fee do not appear in the fee lists of the Bank.

**2.** A claim statement and a petition to certify the claim as a class action against Isracard Ltd., a subsidiary of the Bank, and against two additional credit-card companies were filed with the District Court of Tel-Aviv on July 22, 2018. According to the petitioners, the credit-card companies turned a blind eye for many years to a policy of exploitation of elderly consumers by direct-marketing companies, while gaining clearing fees on a large scale. According to the petitioners, the causes of the claim are violation of a legislated duty, negligence, violation of the duties of trust, unjust enrichment, harm to the autonomy of individuals, violation of an agreement, and misleading. According to the petitioners, an expert examination is necessary in order to assess and quantify the extent of the damages caused, but because, they allege, the occurrence caused harm to tens of thousands of elderly people over the years, and taking into consideration the extent of the alleged damage, they estimate that the restitution or recompense in respect of the pecuniary damages will stand at a total of NIS 1,000 for each member of the group, and at hundreds of millions of NIS cumulatively. With regard to recompense for the non-pecuniary damages, the petitioners estimate that the compensation will be in the amount of NIS 1,000 for each of the members of the group of claimants.

## Note 25 Contingent Liabilities and Special Commitments (continued)

### C. Legal proceedings (continued)

**c. Other proceedings and petitions to certify derivative claims**

Most of the sections of this chapter, below, describe proceedings that include petitions to certify derivative claims on behalf of the Bank against past and/or present officers of the Bank. It is noted, with regard to these proceedings, that even in the event that any of the petitions is accepted, the Bank is, in general, expected to be a potential beneficiary of the proceeding rather than a potential liable party therein.

**1.** On November 7, 2018, a petition was filed with the High Court of Justice against the Governor of the Bank of Israel, the Monetary Committee of the Bank of Israel, the Supervisor of Banks, and ten Israeli banks, including the Bank. The petition centers on the allegation that loan contracts of banks in Israel are misleading contracts and create a false impression, and in certain cases cause the banks to gain unjust enrichment. In its ruling of November 11, 2018, the court instructed the Governor of the Bank of Israel, the Monetary Committee of the Bank of Israel, and the Supervisor of Banks to submit their response to the petition; the response was submitted on February 19, 2019.

**2.** On February 6, 2017, a petition was filed with the District Court of Tel-Aviv for disclosure and perusal of documents in advance of filing a petition for a derivative claim pursuant to Section 198A of the Companies Law. The petition concerns the complaint of a former employee of the Bank against the former CEO of the Bank on the subject of sexual harassment, and the compensation received by the employee when she left the Bank. After the completion of the examination of this matter by the Banking Supervision Department and the Bank, the Bank submitted its position to the court, on March 13, 2018, pursuant to which there is no justification to undertake any proceedings in connection with this matter, and the demands addressed to the Bank concerning this matter should be denied, including the petition filed for disclosure of documents. A hearing of the petition was held on April 24, 2018, in which the petitioner consented to the recommendation of the court to expunge the petition. On December 6, 2018, the petitioner filed a motion, within the document disclosure proceeding, which had concluded, to certify a derivative claim on behalf of the Bank. On the same day, the court instructed the petitioner to file the derivative claim certification petition within a new and separate proceeding, in view of the expungement of the document disclosure proceeding. To the best of the Bank's knowledge, at this time, the certification petition has not been filed in a separate proceeding.

**3.** A petition to certify a derivative claim against the Bank and past and present officers of the Bank (hereinafter: the "Respondents") was filed with the Economic Department of the District Court of Tel-Aviv on September 6, 2017. The certification petition was filed after the petitioner's petition for disclosure of documents was denied, within the petition for permission to appeal filed on behalf of the Bank, and concerns arguments against the conduct of the Respondents in connection with credit granted to companies in the group of Mr. Eliezer Fishman (hereinafter: the "Fishman Group") and the collection thereof. The petition claims that due to the actions and inactions of the Respondents, the Bank incurred damage estimated at more than NIS 1.5 billion. At the request of the parties, a procedural agreement was approved, pursuant to which proceedings in the case would be stayed until completion of the mediation proceeding to which the dispute was referred. A notification providing an update on the progress of the mediation proceeding will be submitted by March 31, 2019.

## Note 25 Contingent Liabilities and Special Commitments (continued)

### C. Legal proceedings (continued)

**4.** On July 13, 2017, a petition was filed with the District Court of Tel-Aviv for disclosure and perusal of documents in advance of filing a petition for a derivative claim pursuant to Section 198A of the Companies Law, 1999, in connection with the investigation in progress in the United States concerning the suspicion that the Bank Group served as a channel for holding and transferring bribes paid to senior FIFA officials. On September 14, 2017, a consensual petition was filed with the court on behalf of the parties to delay the hearing of the disclosure petition until the completion of the investigation referenced in the petition. On September 17, 2017, the court ruled to delay the hearing of the petition, as requested. Pursuant to the rulings of the court of October 3, 2018, and February 3, 2019, a further update on the development of the investigation will be submitted by the parties by June 3, 2019.

**5.** On April 9, 2017, a petition to disclose documents pursuant to Section 198A of the Companies Law, 1999, was filed with the District Court of Tel-Aviv, for the purpose of examining the filing of a petition to certify a derivative claim on behalf of the Bank. The disclosure petition concerns allegations of aid allegedly granted by the Bank and by Bank Hapoalim Switzerland, a company controlled by the Bank (hereinafter: "Hapoalim Switzerland"), to customers in Australia in the evasion of taxes in their country, as has emerged from legal proceedings initiated in Australia against the customers and against the Bank and Hapoalim Switzerland. On May 23, 2017, the Attorney General gave notice of his attendance at the proceedings, under the Procedures Ordinance (Attendance of the Attorney General) [New Version]. On November 6, 2018, a petition to certify a derivative claim was filed in respect of the same causes and arguments of the petition for disclosure of documents against officers of the Bank in the years 1990-2012. Further to mediation proceedings conducted between the parties, the parties intend to submit a settlement agreement for approval by the court, pursuant to which, without this constituting agreement or admission in any form or of any kind of any of the arguments specified in the certification petition, a total of USD 1.2 million will be paid to the Bank (net of compensation for the petitioner and fees for the representative) against exhaustion of all of the causes of the claim and the arguments in the certification petition, the certification petition will be accepted, and the claim against the officers will be fully and finally dismissed. The settlement agreement is subject to approval by the court.

**6.** On June 29, 2014, the Movement for Quality Government in Israel filed a petition with the Supreme Court, sitting as the High Court of Justice, for conditional orders against the Supervisor of Banks and the Governor of the Bank of Israel; the court was asked to order the Supervisor of Banks to perform a comprehensive, systemic investigation regarding the credit granted by the banking system to the IDB Group, and to publish the results of this examination. The Bank and the other banks involved were added as formal respondents. At the petitioner's request, on October 7, 2015, the court ruled to postpone the hearing of the petition until after a verdict is given in an administrative petition filed by the petitioner on May 12, 2015, with the District Court of Jerusalem, in session as the Court for Administrative Matters, in which the court was asked to order the Bank of Israel, among other matters, to deliver to the petitioner audit reports prepared by the Supervisor of Banks at several banking corporations, including the Bank, in connection with credit granted to companies in the Nochi Dankner group. On July 2, 2018, following the dismissal of the aforesaid administrative petition in a ruling of June 2, 2016, and the dismissal of the petitioner's appeal of the ruling of May 30, 2018, at the request of the petitioner, the petition was expunged.

## Note 25 Contingent Liabilities and Special Commitments (continued)

### C. Legal proceedings (continued)

**7.** A petition to certify a derivative claim against the Bank and against several officers who served or serve during the years 2000-2015, or during part of that period, and against the external auditors of the Bank (hereinafter, jointly: the "Formal Respondents"), was filed with the District Court of Tel-Aviv on March 1, 2015.

The petitioner has petitioned the court to determine that the respondents must compensate, indemnify, and benefit the Bank in respect of damage they allegedly caused to the Bank by their actions and inactions, in a total amount of USD 228 million, which the petitioner estimates the Bank will be required to pay to American enforcement agencies in connection with the accounts of American customers at Bank Hapoalim Switzerland.

The petitioner further alleges that the Bank failed to act and set aside appropriate accounting provisions in its financial statements, as required according to generally accepted accounting principles and according to the directives of the law, in respect of the anticipated payment.

As part of the derivative claim, the petitioner filed a petition for disclosure and perusal of documents related to the investigation, including investigation materials and correspondence between the Bank and law-enforcement authorities in the United States.

The court has accepted the procedural agreement reached between the parties, pursuant to which the hearing of the petition will be delayed until the proceedings in the investigation of the Bank being conducted by the United States authorities are completed, and the outcome of these proceedings becomes known (hereinafter: the "First Claim").

On March 1, 2015, a petition was filed with the District Court of Tel-Aviv for the disclosure of documents prior to filing a derivative claim, in connection with the investigation by United States authorities of the activity of Bank Hapoalim Switzerland regarding American customers (hereinafter: the "Second Claim"). The First Claim and the Second Claim shall be referred to hereinafter, jointly, in this section, as the "Aforesaid Proceedings."

On March 5, 2017, the petitioners in the Aforesaid Proceedings filed a petition for consolidation of the petitions and joint representation, in which the court was asked to consolidate the hearing of both petitions before one of the panels of judges. Pursuant to a ruling of April 5, 2017, the petition for consolidation of the petitions and joint representation was accepted, and it was determined that the question of the implications of the consolidation for the manner of continuation of the proceedings would be resolved following the renewal of the proceedings in the case. Further to the notifications given by the Bank that the investigation proceedings in the United States had not yet concluded and the results thereof were not yet known, the court ruled that the hearing of the proceedings in the consolidated claims would be delayed until June 1, 2019, and that by that date the parties would give notice of their position regarding the continued administration of the petition. With regard to developments concerning the investigation of the United States authorities, see Section D below.

## Note 25 Contingent Liabilities and Special Commitments (continued)

### C. Legal proceedings (continued)

**8.** On May 13, 2015, a petition to certify a derivative claim against the Bank and against twenty officers (present and past) of the Bank was filed with the District Court of Tel-Aviv by an alleged shareholder of the Bank. The petition concerns credit granted to Tomahawk Investments Ltd. ("Tomahawk"), which is controlled by Mr. Nochi Dankner, in the alleged amount of NIS 150 million. The petitioner notes that he estimates Tomahawk will repay half of the debt, and the amount of the derivative claim was therefore set at NIS 75 million. The petition claims that the cause for the possible derivative claim on behalf of the Bank is the violation of the duty of care of the officers of the Bank in approving the aforesaid credit without collateral. On January 12, 2017, the Bank's request to dismiss the certification petition in limine was denied.

On March 19, 2017, the petitioner filed a petition for disclosure and perusal of documents, pursuant to Section 198A of the Companies Law, 1999.

In addition, on July 24, 2018, the petitioner filed an additional and separate petition to certify a derivative claim against the Bank and officers thereof (past and present) with the District Court of Tel-Aviv, concerning credit granted to Mr. Nochi Dankner (personally), in an alleged amount of NIS 95 million, according to the petitioner, in violation of the duty of care of the officers of the Bank and with rash and indifferent conduct on their part in approving the aforesaid credit without collateral and in the absence of sufficient effort to collect the debt. The damage alleged in the petition stands at approximately NIS 60 million.

On March 13, 2019, the petitioner, the respondents, and the Bank (after approval by the Audit Committee and Board of Directors of the Bank) filed a motion with the District Court of Tel-Aviv for approval of a settlement with respect to the two certification petitions described in this section above. Pursuant to the main points of the settlement agreement, the insurance company insuring the respondents will pay the Bank a total of NIS 15.65 million, and compensation for the petitioner and fees for the petitioner's representative will be paid out of that amount; both claims will be fully and finally dismissed; and the petitioner and the Bank will waive the causes and claims towards the officers in connection with the credit granted to Tomahawk and to Nochi Dankner; the settlement does not constitute admission by any of the parties of the arguments of another party. The settlement agreement is subject to approval by the court and there is no certainty that such approval will be granted. Pursuant to the ruling of the court of March 14, 2019, the hearing of the two aforesaid certification petitions was consolidated and the response of the representative of the Attorney General was requested.

## Note 25 Contingent Liabilities and Special Commitments (continued)

**D.** During 2011, following the notification of Bank Hapoalim (Switzerland) Ltd. (hereinafter: "Hapoalim Switzerland") by the Swiss authorities that a number of Swiss banks, including Hapoalim Switzerland, were under investigation by the United States authorities in connection with suspicions or concerns of assistance to American customers in evading taxes of the United States authorities, Hapoalim Switzerland submitted statistical information to the Swiss authorities regarding its business with American customers, in order for this information to be conveyed to the United States authorities. On August 29, 2013, it was announced that the United States and Swiss authorities had reached an agreement (the "Swiss Bank Program"), within which Category 2 Swiss banks that would choose to join the Swiss Bank Program and comply with its terms (including the payment of a fine and the submission of extensive information regarding the accounts of their American customers, funds received from other banks, and more) would not be prosecuted in the United States in connection with the matters covered by the program. The Swiss Bank Program defines "Category 2" as a category referring to banks that are not under investigation and can join the program and sign a non-prosecution agreement. On the same day, the United States Department of Justice notified the counsel for Hapoalim Switzerland, via letter, that, pursuant to the provisions of the program, Hapoalim Switzerland would not be included, as it is subject to an investigation. The aforementioned letter did not specify any claims or demands whatsoever.

From the beginning of 2015, following demands and requests received at the Bank from the United States Department of Justice (the DOJ), the New York Department of Financial Services (the NYDFS), and the Federal Reserve, the Bank Group, assisted by its legal counsels, has provided the aforesaid United States authorities with data, information, and documents from the Bank Group in relation to the activities of the Bank Group with American customers, to the extent possible and permitted by law. The investigation, and the gathering of information and documents, as well as the update and validation of the quantitative database of the American customers of the Bank and of Hapoalim Switzerland (including the branch in Luxembourg, and the branch in Singapore which was closed in 2012), are in advanced stages. As part of the investigation, quantitative data and information about American customers of the Bank and of Hapoalim Switzerland were provided to the United States authorities. In addition, at the request of the DOJ, the quantitative data, the methodology, and the investigation methods undertaken by the Bank Group are being examined and validated in parallel by third parties (Independent Examiner), this process has not yet been completed. At this stage, as the investigation of the United States authorities has not ended, no agreement has been reached yet regarding a resolution or resolutions that may be reached (if reached) with any of the United States authorities, and no agreement has been reached regarding the amounts which the Bank will be required to pay, or regarding the type of resolution or resolutions.

There is a range of possibilities for the level of severity of the resolutions and the level of culpability for offenses under United States laws that the Bank and Hapoalim Switzerland will be required to assume within the resolution or resolutions (if reached). At this time, it appears that a resolution or resolutions with the DOJ may be in the form of a deferred prosecution agreement or a plea agreement. An array of considerations may adversely affect the resolution or resolutions (if reached), including possible arguments with respect to certain actions of former senior employees of Hapoalim Switzerland that have emerged in the investigation, the nature and scope of cooperation with the DOJ, and the findings with respect to the severity of the acts and the scope of the activities.

## Note 25 Contingent Liabilities and Special Commitments (continued)

In recent weeks, the Bank continued to hold discussions with the DOJ. As part of these meetings, discussions have begun regarding the methodology for calculation of the amounts that the Bank Group will be required to pay the DOJ within a possible resolution or resolutions. Following this, and based on data collected and processed by the Bank Group during this period, in the fourth quarter of 2018 the Bank increased the amount of the provision for the exposure arising from the investigation of the United States authorities by a total of approximately USD 246 million (approximately NIS 922 million), which was added to past provisions totaling approximately USD 365 million. As at December 31, 2018, the total provision for this matter is equal to an amount of approximately USD 611 million (approximately NIS 2,290 million). This amount also includes, as noted, a provision in respect of the exposure to amounts for other United States authorities (other than the DOJ), at a rate of 30% of the amount of the provision in respect of the DOJ, further to the instruction given by the Banking Supervision Department to the Bank with respect to the Financial Statements of the Bank as at December 31, 2016 – see the statement on this matter in Note 26D to the Annual Financial Statements of the Bank for 2016.

The total amount of the provision includes provision for the three components that, in the Bank's best judgment at this time, and based on the opinion of the Bank's US legal counsel, following the progress of the discussions described above with the DOJ, are expected to be included in a resolution, if and when reached, namely – the component of tax that certain American customers of the Bank Group were liable to pay to the United States tax authorities, the component of income of the Bank Group from American customers, as noted, and a component of the penalty which the Bank Group may pay. Although these are separate and different components under United States law, to the best of the Bank's knowledge, there is certain interplay among these components, which makes it difficult to predict the method of calculation of the total amount to be paid within a resolution, if formulated. As noted above, the aforesaid amounts also include a provision at a rate of 30% of the amount of the provision in respect of the DOJ, for the exposure to other United States authorities.

The provision was calculated based on the quantitative information available to the Bank Group in respect of these customers, as at the date of publication of the financial statements. Before the American customers database is fully updated and validated and agreements are reached with the United States authorities regarding the criteria for determining the population of customers relevant for the calculation, the periods relevant for the calculation, the components of the calculation and the calculation methods, the Bank Group and its legal counsels are unable to reasonably estimate the extent or range of the exposure, both from a financial aspect and with respect to other possible implications. Accordingly, as the Bank Group or its legal counsels are unable to reasonably estimate the expected loss due to the consequences of the investigation or the scope and range of the exposure, the provision included by the Bank is calculated based on the Bank's estimate of the minimum amount of the exposure, according to the methodology presented to the DOJ, in accordance with the accounting principles applicable to the Bank. The amounts of the payment include certain deductions and exclusions which are subject to approval by the DOJ.

Although the Bank estimates that it is likely to also pay amounts to other authorities within a resolution or resolutions with them (if and as formulated), and it is possible that these amounts will be significant, at this stage negotiations with the other authorities regarding amounts which the Bank Group will be required to pay within a resolution or resolutions with them (if reached) have not yet begun. Accordingly, the Bank Group and its legal counsels are also unable to reasonably estimate the extent of the exposure with respect to other authorities.

## Note 25 Contingent Liabilities and Special Commitments (continued)

The Bank estimates that it is likely that the aggregate total to be paid by the Bank Group within resolutions with the DOJ and other authorities (if reached) will be significantly higher than the amount of the provision, although it is unable to estimate these amounts, as noted above.

In the context of the internal investigation that the Bank is conducting in connection with the investigation of the United States authorities, the Bank became aware that during the operation of one of its computer systems, which is used, among other things, for secure information transfers and correspondence between different units of the Bank Group in Israel and abroad, documents and information of these units, including documents and information from branches of Hapoalim Switzerland, were stored on or accessible from the Bank's servers in the United States, in a manner that might not be consistent with bank secrecy and privacy protection laws and regulations. The Bank, with the assistance of external advisors, is acting to map the materials in order to determine their scope and content, and has updated the relevant government authorities on this matter. In this context, and in light of the proceedings in the United States, the Bank has taken steps to maintain the aforementioned system and the documents and information retained therein in their present state, and delivered certain information and documents to the United States authorities, of the information retained on the Bank's servers in the United States, further to their demand. The Bank Group is examining the legal and regulatory implications, which also include financial exposures, the probability and scope of which are difficult to assess at this stage.

Before the date of approval of the financial statements for the second quarter of 2018, the Banking Supervision Department notified the Bank that in light of the substantive uncertainty with respect to the investigation of the United States authorities, and for reasons of caution and conservatism, the Banking Supervision Department was of the opinion that, at this time, dividends should not be distributed by the Bank. Accordingly, for reasons of conservatism and in coordination with the Bank of Israel, the Board of Directors of the Bank did not declare the distribution of a dividend from the profits of the second, third, and fourth quarters of 2018, with no change to the Bank's dividend distribution policy. See also Note 24 to the Financial Statements.

It is emphasized that the provision made up to this point or the specification of the extent of the exposure, as noted, do not constitute admission of any claim that may be directed at the Bank Group by the United States authorities or by any other party.

## Note 25 Contingent Liabilities and Special Commitments (continued)

**E.** During 2015, the Department of Justice in the United States filed an indictment with the Federal Court in New York, charging high-ranking officials of the Fédération Internationale de Football Association (FIFA) and others with allegations of committing bribery, fraud, and related offenses. A superseding indictment was published in December 2015, replacing the original indictment. According to the original indictment and the superseding indictment, certain defendants held accounts at Bank Hapoalim (Switzerland) Ltd. and executed financial transactions allegedly related to the affair in these accounts.

According to reports, as part of this affair, the American authorities are also investigating various financial institutions. As part of this process, the DOJ is investigating whether the Bank Group violated criminal statutes in the United States relating to fraud and money laundering in connection with bank accounts held at the Bank Group by certain defendants involved in the affair. Within this framework, the Bank was served with orders for discovery of documents and other various requests for data and information. Subject to the directives of the relevant laws that apply to the various entities within the Bank Group, information and documents of a significant volume were submitted to the authorities. The United States Department of Justice also conducted interviews with some employees of the Bank. The Bank Group is making significant progress in an internal investigation that it is performing in connection with this matter, through external attorneys, and is cooperating with the authorities.

According to the opinion of the legal advisors of the Bank Group, at this stage it is not possible to estimate whether the Bank Group will bear any liability on the criminal, civil, or regulatory plane with regard to this matter; accordingly, no provision was included in the financial statements.

### F. Securitization

**1.** The Bank supplies liquidity lines to securitization entities in which third parties serve as the sponsors. The lines supplied by the Bank constitute a relatively small share of the total liquidity lines of these securitization entities. The Bank does not supply credit reinforcement to these entities. The total liquidity lines supplied to securitization entities, as described above, as at December 31, 2018, amounted to NIS 187 million (USD 50 million), compared with NIS 173 million (USD 50 million) at the end of 2017. No withdrawals were performed on any of these lines up to December 31, 2018. Taking into consideration the fact that the Bank usually supplies a relatively small share of the total liquidity lines to these securitization entities and does not provide them with other types of support, the Bank has determined that it does not hold interests that would make it the primary beneficiary in any VIE (variable interest entity) of these securitization entities.

**2.** During the second quarter of 2018, the Bank entered into a transaction for the financing of receivables portfolios as an investor, within which the Bank granted loans in a total amount of approximately NIS 120 million, backed by receivables portfolios transferred by the initiator to a special purpose entity (SPE). The Bank does not consolidate the SPE in its financial statements and has no obligation to supply it with additional liquidity lines. The loans were classified as credit to the public in the financial statements of the Bank.

## Note 25 Contingent Liabilities and Special Commitments (continued)

### G. Contractual engagements with credit-card companies

Pursuant to the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments), 2017 (the "Increasing Competition Law"), beginning in February 2017, the Bank is obligated to operate the issuance of new credit cards issued to customers of the Bank through at least two issuance operators. The share of any issuance operator shall not exceed 52% of the new cards issued by the Bank. In light of this directive, the Bank conducted negotiations with the credit-card companies in order to contract issuance operation agreements.

In November 2018, the Bank signed an agreement for the joint issuance and issuance operation of charge cards with Cartisei Ashrai LeIsrael Ltd. (CAL). Pursuant to the aforesaid agreement, the parties issue charge cards, beginning in February 2019, and CAL performs the issuance operation. The agreement establishes the distribution of income between the parties as well as the rights and obligations of the parties and additional arrangements with respect to the described activity.

In addition, the Bank reached in-principle agreements for joint issuance and operation of charge cards with Max, of the group of Leumi Card Ltd. The parties are working to sign a detailed agreement.

In view of the changes required by the Increasing Competition Law and in light of the expected separation of Isracard Group and the Bank, an agreement between the Bank and Europay (Eurocard) Israel Ltd. for the issuance and operation of credit cards was signed on March 3, 2019, replacing the existing agreement between the parties, and which will also apply to cards issued under the existing agreement. Pursuant to the agreement, the parties will issue MasterCard, Visa, and Isracard charge cards, which will be operated by Isracard. The aforesaid agreement establishes the distribution of income between the parties as well as the rights and obligations of the parties and additional arrangements with respect to the described activity. The agreement will be in effect until February 2023, and will be extended automatically for additional periods of five years each, unless one of the parties expresses its wish to terminate the agreement, under the terms and at the times specified in the agreement. The Banking Supervision Department has granted its approval to the agreement.

In addition, in view of the changes required by the Increasing Competition Law and in light of the expected separation of Isracard Group and the Bank, an agreement between the Bank and Poalim Express for financial arrangements and account settlement was signed on March 3, 2019, replacing the existing financial arrangements between the parties, and which will also apply to American Express cards issued under the existing financial arrangement. Pursuant to the agreement, the parties will issue American Express charge cards, which will be operated by Poalim Express. The aforesaid agreement establishes the distribution of income between the parties as well as the rights and obligations of the parties and additional arrangements with respect to the described activity. The agreement will be in effect until February 2023, and will be extended automatically for additional periods of two years each, unless one of the parties expresses its wish to terminate the agreement, under the terms and at the times specified in the agreement. The Banking Supervision Department has granted its approval to the agreement.

## Note 26 Liens and Other Restrictions

**A.** Securities in foreign currency held by the Bank Group abroad, with a balance in the amount of NIS 1.7 billion as at December 31, 2018 (December 31, 2017: NIS 1.8 billion), were pledged mainly to secure deposits from the public (through the FDIC), in accordance with the directives of government authorities in the United States, and in respect of monetary loans received from central banks in those countries.

**B.** The Bank is a member of the Euroclear clearing house, which is a clearing system for securities traded in international markets. For its securities activity through this clearing house and as collateral for a credit line established by the clearing-house operator in the Bank's favor, the Bank pledged cash and securities with a total balance of USD 60 million (NIS 225 million) as at December 31, 2018 (December 31, 2017: approximately USD 60 million (NIS 208 million)).

**C.** As at December 31, 2018, there are no balances of securities pledged to secure deposits received within transactions for the sale of assets in repurchase agreements (balance of assets pledged as at December 31, 2017: NIS 367 million).

**D.** The Bank is a member of the Maof Clearing House Ltd. and the TASE Clearing House Ltd. For the purpose of the operation of these clearing houses in securing transactions under the Bank's responsibility, the Bank has pledged bonds in accounts opened for that purpose at these clearing houses.
The balance of bonds pledged as at December 31, 2018 totaled NIS 2.0 billion (maximum balance during 2018: NIS 2.1 billion).
The balance of bonds pledged as at December 31, 2017 totaled NIS 2.1 billion (maximum balance during 2017: NIS 4.1 billion).
In addition to the collateral detailed above, the Bank deposited collateral in cash in the amount of NIS 27 million (December 31, 2017: NIS 27 million) in favor of the risk fund of the TASE Clearing House, and in the amount of NIS 103 million (December 31, 2017: NIS 103 million) in favor of the risk fund of the Maof Clearing House. The amount of collateral that clearing-house members are required to deposit is updated from time to time, in accordance with the clearing houses' codes of rules.

**E.** The Bank and its consolidated companies enter into CSA (Credit Support Annex) agreements with counterparties, aimed at minimizing the mutual credit risks that arise between banks in the course of derivatives trading. Under these agreements, the fair value of the obligations and rights of the parties in connection with transactions in derivatives is measured periodically, and if the net exposure of one of the parties exceeds a predetermined threshold, that party provides a transfer to the other party in order to limit the exposure, until the date of the next measurement.
As at December 31, 2018, the Bank Group provided deposits to counterparties at a value of USD 540 million (December 31, 2017: USD 600 million).

## Note 26 Liens and Other Restrictions (continued)

NIS millions

**F.** In July 2008, an agreement was signed between the Bank and the Bank of Israel in which the Bank of Israel made a commitment to provide the Bank with a credit line of up to a total amount of NIS 1 billion, for the purpose of complying with the Bank's commitment as a liquidity supplier in NIS for CLS Bank International.

As a condition for the provision of the loans, the Bank signed a bond in which it applied a first-rank floating lien in favor of the Bank of Israel on its rights to receive monetary amounts and charges in NIS owed at present and/or owed to the Bank in the future from time to time by its customers that are corporations incorporated under the laws of the State of Israel (hereinafter: the "Indebted Customers") and whose repayments to the Bank of any credit received from the Bank are not in arrears, in respect of credit in NIS, where the average duration of each credit does not exceed three years, granted and/or to be granted by the Bank to the Indebted Customers, up to a total amount of NIS 1.1 billion.

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| **G.** Sources of securities received which the Bank is permitted to sell or pledge, at fair value, before the effect of offsets | | |
| Securities purchased under agreements to resell | **708** | 684 |
| **H.** Applications of securities received as collateral and of securities of the Bank, at fair value, before the effect of offsets | | |
| Securities sold under agreements to repurchase | **-** | 367 |
| **I.** Details of securities pledged to lenders* | | |
| Securities available for sale | **28** | 396 |

* These securities were provided as collateral to lenders, who are entitled to sell or pledge them.

**J.** Other than these securities, additional securities, which are presented in the item of securities in the portfolio available for sale, in the amount of NIS 3,782 million (December 31, 2017: NIS 3,917 million), have been submitted as collateral, which the lenders are not permitted to sell or pledge.

## Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates

NIS millions

### A. Nominal amount of derivative instruments

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Interest contracts | | Foreign-currency contracts | Share-related contracts | Commodity and other contracts | Total |
| | NIS-CPI | Other | | | | |
| **1. Hedging derivatives*** | | | | | | |
| Swaps | - | 14,877 | - | - | - | 14,877 |
| Total hedging derivatives | - | 14,877 | - | - | - | 14,877 |
| Of which: interest-rate swap contracts in which the banking corporation has agreed to pay a fixed interest rate | - | 9,863 | - | - | - | 9,863 |
| **2. ALM derivatives*,**** | | | | | | |
| Future contracts | - | 3,542 | - | - | - | 3,542 |
| Forward contracts | 20,094 | 22,825 | 171,405 | - | 325 | 214,649 |
| Other option contracts: | | | | | | |
| Options written | - | 24,426 | 15,209 | 2,399 | 478 | 42,512 |
| Options bought | - | 23,066 | 16,056 | 761 | 477 | 40,360 |
| Swaps | 5,612 | 678,636 | 39,547 | 9,997 | - | 733,792 |
| Total ALM derivatives | 25,706 | 752,495 | 242,217 | 13,157 | 1,280 | 1,034,855 |
| Of which: interest-rate swap contracts in which the banking corporation has agreed to pay a fixed interest rate | 4,916 | 339,029 | - | - | - | 343,945 |

* Excluding credit derivatives and foreign currency spot swap contracts.
** Derivatives constituting part of the asset and liability management system of the Bank, which are not designated for hedging.

## Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

NIS millions

### A. Nominal amount of derivative instruments (continued)

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Interest contracts | | Foreign-currency contracts | Share-related contracts | Commodity and other contracts | Total |
| | NIS-CPI | Other | | | | |
| **3. Other derivatives*** | | | | | | |
| Future contracts | - | - | - | **11,872** | - | **11,872** |
| Option contracts traded on the stock exchange: | | | | | | |
| Options written | - | - | **2,727** | **13,197** | - | **15,924** |
| Options bought | - | - | **2,727** | **13,197** | - | **15,924** |
| Swaps | - | - | - | - | - | - |
| Total other derivatives | - | - | **5,454** | **38,266** | - | **43,720** |
| Of which: interest-rate swap contracts in which the banking corporation has agreed to pay a fixed interest rate | - | - | - | - | - | - |
| **4. Credit derivatives and foreign-currency spot swap contracts** | | | | | | |
| Foreign-currency spot swap contracts | - | - | **16,452** | - | - | **16,452** |
| Total nominal amount | **25,706** | **767,372** | **264,123** | **51,423** | **1,280** | **1,109,904** |

* Excluding credit derivatives and foreign currency spot swap contracts.

## Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

NIS millions

### A. Nominal amount of derivative instruments (continued)

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Interest contracts | | Foreign-currency contracts | Share-related contracts | Commodity and other contracts | Total |
| | NIS-CPI | Other | | | | |
| **1. Hedging derivatives*** | | | | | | |
| Forward contracts | - | - | 2,076 | - | - | 2,076 |
| Swaps | - | 9,922 | - | - | - | 9,922 |
| Total hedging derivatives | - | 9,922 | 2,076 | - | - | 11,998 |
| Of which: interest-rate swap contracts in which the banking corporation has agreed to pay a fixed interest rate | - | 7,843 | - | - | - | 7,843 |
| **2. ALM derivatives*,**** | | | | | | |
| Future contracts | - | 3,221 | - | - | - | 3,221 |
| Forward contracts | 23,371 | 14,065 | 140,233 | - | 157 | 177,826 |
| Other option contracts: | | | | | | |
| Options written | - | 20,752 | 14,212 | 2,712 | 193 | 37,869 |
| Options bought | - | 19,689 | 14,230 | 941 | 176 | 35,036 |
| Swaps | 8,580 | 598,078 | 42,737 | 9,073 | - | 658,468 |
| Total ALM derivatives | 31,951 | 655,805 | 211,412 | 12,726 | 526 | 912,420 |
| Of which: interest-rate swap contracts in which the banking corporation has agreed to pay a fixed interest rate | 7,757 | 298,671 | - | - | - | 306,428 |

* Excluding credit derivatives and foreign-currency spot swap contracts.
** Derivatives constituting part of the asset and liability management system of the Bank, which are not designated for hedging.

## Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

NIS millions

### A. Nominal amount of derivative instruments (continued)

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Interest contracts | | Foreign-currency contracts | Share-related contracts | Commodity and other contracts | Total |
| | NIS-CPI | Other | | | | |
| **3. Other derivatives*** | | | | | | |
| Future contracts | - | - | - | 10,752 | - | 10,752 |
| Option contracts traded on the stock exchange: | | | | | | |
| Options written | - | - | 3,723 | 10,996 | - | 14,719 |
| Options bought | - | - | 3,723 | 10,996 | - | 14,719 |
| Swaps | - | 59 | - | - | - | 59 |
| Total other derivatives | - | 59 | 7,446 | 32,744 | - | 40,249 |
| Of which: interest-rate swap contracts in which the banking corporation has agreed to pay a fixed interest rate | - | 59 | - | - | - | 59 |
| **4. Credit derivatives and foreign-currency spot swap contracts** | | | | | | |
| Credit derivatives for which the banking corporation is a guarantor | - | - | - | - | 121 | 121 |
| Credit derivatives for which the banking corporation is a beneficiary | - | - | - | - | 50 | 50 |
| Foreign-currency spot swap contracts | - | - | 10,593 | - | - | 10,593 |
| Total nominal amount | 31,951 | 665,786 | 231,527 | 45,470 | 697 | 975,431 |

* Excluding credit derivatives and foreign-currency spot swap contracts.

## Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

NIS millions

### B. Gross fair value of derivative instruments

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Interest contracts | | Foreign-currency contracts | Share-related contracts | Commodity and other contracts | Total |
| | NIS-CPI | Other | | | | |
| **1. Hedging derivatives*** | | | | | | |
| Positive gross fair value | - | 93 | - | - | - | 93 |
| Negative gross fair value | - | 192 | - | - | - | 192 |
| **2. ALM derivatives*,**** | | | | | | |
| Positive gross fair value | 366 | 4,350 | 4,250 | 322 | 63 | 9,351 |
| Negative gross fair value | 224 | 4,395 | 3,387 | 316 | 64 | 8,386 |
| **3. Other derivatives*** | | | | | | |
| Positive gross fair value | - | - | 35 | 1,055 | - | 1,090 |
| Negative gross fair value | - | - | 36 | 1,064 | - | 1,100 |
| **4. Credit derivatives** | | | | | | |
| Credit derivatives for which the banking corporation is a guarantor: | | | | | | |
| Positive gross fair value | - | - | - | - | - | - |
| Total positive gross fair value | 366 | 4,443 | 4,285 | 1,377 | 63 | 10,534 |
| Fair-value amounts offset in the balance sheet | - | - | - | - | - | - |
| Balance sheet balance of assets in respect of derivative instruments(1) | 366 | 4,443 | 4,285 | 1,377 | 63 | 10,534 |
| (1) Of which: balance sheet balance of assets in respect of derivative instruments not subject to a netting arrangement or similar arrangements*** | 29 | 80 | 941 | 1,194 | 16 | 2,260 |
| Total negative gross fair value(3) | 224 | 4,587 | 3,423 | 1,380 | 64 | 9,678 |
| Fair-value amounts offset in the balance sheet | - | - | - | - | - | - |
| Balance sheet balance of liabilities in respect of derivative instruments(2) | 224 | 4,587 | 3,423 | 1,380 | 64 | 9,678 |
| (2) Of which: balance sheet balance of liabilities in respect of derivative instruments not subject to a netting arrangement or similar arrangements*** | - | 34 | 680 | 1,085 | 16 | 1,815 |

* Excluding credit derivatives.
** Derivatives constituting part of the asset and liability management system of the Bank, which are not designated for hedging.
*** For this purpose, a netting arrangement is an arrangement that meets the legal and operational conditions established with regard to offsets in Appendix C to Proper Conduct of Banking Business Directive 203, "Capital Measurement and Adequacy."
(3) Of which, negative fair value of embedded derivative instruments in the amount of NIS 2 million.

## Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

NIS millions

### B. Gross fair value of derivative instruments (continued)

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Interest contracts | | Foreign-currency contracts | Share-related contracts | Commodity and other contracts | Total |
| | NIS-CPI | Other | | | | |
| **1. Hedging derivatives*** | | | | | | |
| Positive gross fair value | - | 50 | 57 | - | - | 107 |
| Negative gross fair value | - | 199 | 7 | - | - | 206 |
| **2. ALM derivatives*,**** | | | | | | |
| Positive gross fair value | 445 | 6,244 | 4,250 | 147 | 11 | 11,097 |
| Negative gross fair value | 465 | 6,407 | 4,040 | 137 | 11 | 11,060 |
| **3. Other derivatives*** | | | | | | |
| Positive gross fair value | - | - | 41 | 767 | - | 808 |
| Negative gross fair value | - | - | 41 | 767 | - | 808 |
| **4. Credit derivatives** | | | | | | |
| Credit derivatives for which the banking corporation is a guarantor: | | | | | | |
| Positive gross fair value | - | - | - | - | 1 | 1 |
| Total positive gross fair value | 445 | 6,294 | 4,348 | 914 | 12 | 12,013 |
| Fair-value amounts offset in the balance sheet | - | - | - | - | - | - |
| Balance sheet balance of assets in respect of derivative instruments(1) | 445 | 6,294 | 4,348 | 914 | 12 | 12,013 |
| (1) Of which: balance sheet balance of assets in respect of derivative instruments not subject to a netting arrangement or similar arrangements*** | 90 | 125 | 797 | 797 | 9 | 1,818 |
| Total negative gross fair value(3) | 465 | 6,606 | 4,088 | 904 | 11 | 12,074 |
| Fair-value amounts offset in the balance sheet | - | - | - | - | - | - |
| Balance sheet balance of liabilities in respect of derivative instruments(2) | 465 | 6,606 | 4,088 | 904 | 11 | 12,074 |
| (2) Of which: balance sheet balance of liabilities in respect of derivative instruments not subject to a netting arrangement or similar arrangements*** | 1 | 109 | 884 | 877 | 8 | 1,879 |

* Excluding credit derivatives.
** Derivatives constituting part of the asset and liability management system of the Bank, which are not designated for hedging.
*** For this purpose, a netting arrangement is an arrangement that meets the legal and operational conditions established with regard to offsets in Appendix C to Proper Conduct of Banking Business Directive 203, "Capital Measurement and Adequacy."
(3) Of which, negative fair value of embedded derivative instruments in the amount of NIS 25 million.

## Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

NIS millions

### C. Credit risk in respect of derivative instruments, by contract counterparty

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Stock exchanges | Banks | Dealers/ brokers | Governments and central banks | Others | Total |
| Positive gross fair value of derivative instruments | **527** | **4,641** | **1,358** | **3** | **4,005** | **10,534** |
| Gross amounts not offset in the balance sheet: | | | | | | |
| Credit risk mitigation in respect of financial instruments | **-** | **(4,030)** | **(1,027)** | **(3)** | **(723)** | **(5,783)** |
| Credit risk mitigation in respect of cash collateral received | **-** | **(509)** | **(139)** | **-** | **(1,219)** | **(1,867)** |
| Net total assets in respect of derivative instruments | **527** | **102** | **192** | **-** | **2,063** | **2,884** |
| Off-balance sheet credit risk in respect of derivative instruments[1] | **321** | **4,217** | **1,620** | **43** | **4,059** | **10,260** |
| Off-balance sheet credit risk mitigation | **-** | **(2,231)** | **(603)** | **(26)** | **(696)** | **(3,556)** |
| Total gross credit risk in respect of derivative instruments | **848** | **8,858** | **2,978** | **46** | **8,064** | **20,794** |
| Balance sheet balance of liabilities in respect of derivative instruments[2] | **264** | **5,197** | **1,528** | **123** | **2,566** | **9,678** |
| Gross amounts not offset in the balance sheet: | | | | | | |
| Financial instruments | **-** | **(4,030)** | **(1,027)** | **(3)** | **(723)** | **(5,783)** |
| Net total liabilities in respect of derivative instruments | **264** | **1,167** | **501** | **120** | **1,843** | **3,895** |

(1) Off-balance sheet credit risk in respect of derivative instruments (including derivative instruments with negative fair value) as calculated for the purpose of restrictions on the indebtedness of a borrower.
(2) Of which, negative fair value of embedded derivative instruments in the amount of NIS 2 million (December 31, 2017: NIS 25 million).

## Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

NIS millions

### C. Credit risk in respect of derivative instruments, by contract counterparty (continued)

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Stock exchanges | Banks | Dealers/ brokers | Governments and central banks | Others | Total |
| Positive gross fair value of derivative instruments | 79 | 6,019 | 1,872 | 83 | 3,960 | 12,013 |
| Gross amounts not offset in the balance sheet: | | | | | | |
| Credit risk mitigation in respect of financial instruments | - | (5,422) | (1,600) | - | (626) | (7,648) |
| Credit risk mitigation in respect of cash collateral received | - | (407) | (128) | (36) | (513) | (1,084) |
| Net total assets in respect of derivative instruments | 79 | 190 | 144 | 47 | 2,821 | 3,281 |
| Off-balance sheet credit risk in respect of derivative instruments[1] | 270 | 3,924 | 1,616 | 82 | 4,074 | 9,966 |
| Off-balance sheet credit risk mitigation | - | (2,138) | (651) | - | (823) | (3,612) |
| Net off-balance sheet credit risk in respect of derivative instruments | 270 | 1,786 | 965 | 82 | 3,251 | 6,354 |
| Total gross credit risk in respect of derivative instruments | 349 | 9,943 | 3,488 | 165 | 8,034 | 21,979 |
| Balance sheet balance of liabilities in respect of derivative instruments[2] | 456 | 6,261 | 2,420 | 44 | 2,893 | 12,074 |
| Gross amounts not offset in the balance sheet: | | | | | | |
| Financial instruments | - | (5,422) | (1,600) | - | (626) | (7,648) |
| Net total liabilities in respect of derivative instruments | 456 | 839 | 820 | 44 | 2,267 | 4,426 |

(1) Off-balance sheet credit risk in respect of derivative instruments (including derivative instruments with negative fair value) as calculated for the purpose of restrictions on the indebtedness of a borrower.
(2) Of which, negative fair value of embedded derivative instruments in the amount of NIS 2 million (December 31, 2017: NIS 25 million).

## Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

NIS millions

### D. Details of maturity dates (nominal value amounts)

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Up to 3 months | Over 3 months up to 1 year | Over 1 year up to 5 years | Over 5 years | Total |
| Interest contracts | | | | | |
| NIS-CPI | **2,829** | **6,120** | **10,221** | **6,536** | **25,706** |
| Other | **138,803** | **131,736** | **400,724** | **96,109** | **767,372** |
| Foreign-currency contracts | **161,445** | **62,287** | **23,787** | **16,604** | **264,123** |
| Share-related contracts | **40,023** | **6,694** | **4,706** | **-** | **51,423** |
| Commodity and other contracts (including credit derivatives) | **561** | **700** | **19** | **-** | **1,280** |
| Total | **343,661** | **207,537** | **439,457** | **119,249** | **1,109,904** |

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Up to 3 months | Over 3 months up to 1 year | Over 1 year up to 5 years | Over 5 years | Total |
| Total | 262,969 | 170,469 | 412,913 | 129,080 | 975,431 |

### E. Derivative financial instruments – risk control

**(1)** The Bank executes transactions in derivative financial instruments as part of its financial risk management (linkage base, interest rate, and liquidity exposures) and as a service to its customers. From time to time, the Bank designates some of the derivative instruments as hedging instruments in fair-value hedges or cash-flow hedges. The hedging derivative instruments are measured according to the rules detailed in Note 1(E)(6).

**(2)** The principal types of transactions in which the Bank operates are:

- Forward

A contract between two parties for the purchase and sale of a defined quantity of commodities, currencies, interest rates, or other financial instruments (hereinafter: underlying assets), to be transacted at a future date and at a predefined price.

- Future

A future contract traded on stock markets, for the purchase or sale of a quantity of standard units of underlying assets, to be transacted at a future date and at a predefined price.

- Swap

A contract for the exchange at the time of the transaction of a defined quantity of underlying assets, with a mutual obligation to re-exchange the exchanged items at a future date.

- Option

A contract that confers, for the payment of a premium, the right to purchase (call) or sell (put) underlying assets at a price, quantity, and time denoted in advance.

- Spot

An exchange transaction between two currencies on the basis of a pre-agreed rate, for transaction within two days.

## Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

**(3)** Activity in derivative financial instruments involves a number of risks, as detailed below:

Credit risk – The maximum amount of loss to the Bank if the counterparty does not fulfill the terms of the contract.

Market risk – Risk arising from fluctuations in the value of a derivative financial instrument as a result of a change in market prices, such as exchange rates, interest rates, etc.

Liquidity risk – Risk deriving from the inability to close a position rapidly by clearing in cash or by creating a reverse position.

Operational risk – Risk deriving from the erroneous operation of transactions from the time that they are formed until the end of account settlement in respect thereof, due to human error or as a result of a mechanical failure in operation.

Market and liquidity risks arising from this activity are managed and measured routinely in specialized automated systems known in the international markets for these purposes, such as Summit, Devon, and Algorithmics, and in automated systems developed by the Bank.

Credit risk arising from transactions in derivative financial instruments with respect to the counterparty to the transactions is usually measured by applying conservative coefficients to the nominal amounts of the transactions, and using the scenarios approach.

The operational issues arising from this activity are examined and controlled routinely by a specialized unit.

The use of derivative instruments as part of the management of the Bank's current (non-trading) activity is aimed at achieving objectives and complying with limits as approved by the Board of Directors (linkage base, interest rate, and liquidity exposures).

The Bank provides comprehensive service to its customers for hedging and investing in derivative financial instruments via the dealing rooms.

Activity in financial instruments in the areas of trading is designed to respond to customers' needs while undertaking limited and controlled risk in accordance with authorizations.

The authorizations for activity and risk are measured, as relevant, in terms of sensitivity to risk factors (such as vega); theoretical loss in different scenarios, including an extreme scenario; in terms of VaR; and in terms of nominal amounts. In certain cases, procedure also prescribes limiting losses by means of a stop-loss order.

## Note 28 Supervisory Activity Segments

### Assignment of customers to the supervisory activity segments

The reporting on segments of activity is in accordance with the format and classifications established in the Public Reporting Directive of the Banking Supervision Department, as detailed below.

- **Private Banking Segment –** Private individuals the balance of whose portfolio of financial assets exceeds NIS 3 million.
- **Household Segment –** Private individuals other than those customers included in the Private Banking Segment.
- **Microbusiness and Small Business Segment –** Businesses with an annual revenue lower than NIS 50 million.
- **Mid-sized Business Segment –** Businesses with an annual revenue greater than or equal to NIS 50 million, and lower than NIS 250 million.

## Note 28 Supervisory Activity Segments (continued)

- **Large Business Segment –** Businesses with an annual revenue greater than or equal to NIS 250 million.
- **Financial Management Segment –** Includes trading activity, asset and liability management, non-financial investment, and additional activities, as defined in the directives of the Supervisor of Banks.
- **Institutional Entity Segment –** Includes provident funds, mutual funds, pension funds, study funds, and insurance companies, in accordance with the definitions of the Supervisor of Banks.
- **Other Segment –** Includes profits from designated amounts and other results related to employee benefits not allocated to other activity segments, activities not allocated to other segments, and adjustments of the total items attributed to the segments with the total items in the financial statements. In addition, the segment's results include legal and other provisions and expenses in connection with the investigation concerning the Bank Group's business with American customers. The segment also includes the activity of the Isracard Group, which is classified as a discontinued operation, as detailed in Note 1G.

Pursuant to the supervisory directive, when the annual revenue of a business client does not reflect the volume of the client's activity, the classification is performed as follows:
If the total indebtedness of the business client is greater than or equal to NIS 100 million, the client can be assigned to the Large Business Segment. If the client's indebtedness is lower than NIS 100 million, the client can be assigned to the appropriate supervisory activity segment based on its total balance sheet assets, in accordance with the rules set forth in the directive.
If the Bank does not have information regarding the annual revenue of a business client that has no indebtedness to the Bank, the client can be classified based on its total financial assets at the Bank (including monetary deposits, securities portfolios, and other monetary assets), in accordance with the rules detailed in the directive.
Note that the Bank takes various actions to obtain information regarding the annual revenue of its business clients. However, in certain cases, in the absence of information regarding the annual revenue, customer classifications are determined using evaluations and estimates based on the Bank's familiarity with the client and its activity. The Bank endeavors to obtain complete data regarding these customers.
For details regarding the division of the results of operations among the various segments, which is performed according to the rules for such division used by the Bank in the management approach, see Note 28A below.

### Reclassification of comparative figures

Comparative figures for 2017 and 2016 were restated in order to present the Isracard Group as a discontinued operation, separate from the continued operations, under the "Other" segment. For additional details, see Note 1G.
In addition, some data were reclassified in order to properly reflect improvements in segment measurement methods. Expenses in respect of insurance for Sale Law guarantees were classified as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item.

## Note 28 Supervisory Activity Segments (continued)

### Information regarding supervisory activity segments

| | For the year ended December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Activity in Israel | | | | |
| | Households | Private banking | Small businesses and microbusinesses | Mid-sized businesses | Large businesses |
| Interest income from externals | 4,476 | 41 | 2,607 | 882 | 1,645 |
| Interest expenses for externals | (319) | (186) | (156) | (100) | (217) |
| Net interest income: | | | | | |
| From externals | 4,157 | (145) | 2,451 | 782 | 1,428 |
| Inter-segmental | (1,028) | 305 | (143) | (74) | (422) |
| Total net interest income | 3,129 | 160 | 2,308 | 708 | 1,006 |
| Non-interest income: | | | | | |
| Non-interest financing income | 7 | 1 | 7 | 10 | 30 |
| Fees and other income | 1,330 | 161 | 820 | 272 | 330 |
| Total non-interest income | 1,337 | 162 | 827 | 282 | 360 |
| Total income | 4,466 | 322 | 3,135 | 990 | 1,366 |
| | | | | | |
| Provision (income) for credit losses | 498 | - | 379 | (48) | (305) |
| Operating and other expenses: | | | | | |
| For externals | 3,755 | 129 | 1,318 | 300 | 291 |
| Inter-segmental | (270) | 53 | 367 | 13 | 16 |
| Total operating and other expenses | 3,485 | 182 | 1,685 | 313 | 307 |
| | | | | | |
| Profit (loss) from continued operations before taxes | 483 | 140 | 1,071 | 725 | 1,364 |
| Provision for taxes (tax benefit) on profit (loss) from continued operations | 176 | 50 | 389 | 266 | 497 |
| Profit (loss) from continued operations after taxes | 307 | 90 | 682 | 459 | 867 |
| The Bank's share in profits of equity-basis investees | - | - | - | - | - |
| Net profit (loss) from continued operations | 307 | 90 | 682 | 459 | 867 |
| Net profit from a discontinued operation | - | - | - | - | - |
| Net profit (loss) before attribution to non-controlling interests | 307 | 90 | 682 | 459 | 867 |
| Loss (profit) attributed to non-controlling interests | - | - | - | - | - |
| Net profit (loss) attributed to shareholders of the Bank | 307 | 90 | 682 | 459 | 867 |

NIS millions

| For the year ended December 31, 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Activity in Israel | | | | Activity overseas | | | | Total |
| Institutional entities | Financial management | Other | Total activity in Israel | Private individuals | Business activity | Other | Total activity overseas | |
| 56 | 900 | - | 10,607 | 8 | 780 | 277 | 1,065 | 11,672 |
| (396) | (1,029) | - | (2,403) | (21) | (302) | (40) | (363) | (2,766) |
| | | | | | | | | |
| (340) | (129) | - | 8,204 | (13) | 478 | 237 | 702 | 8,906 |
| 437 | 1,110 | - | 185 | 36 | (78) | (143) | (185) | - |
| 97 | 981 | - | 8,389 | 23 | 400 | 94 | 517 | 8,906 |
| | | | | | | | | |
| 36 | 1,264 | - | 1,355 | - | - | 90 | 90 | 1,445 |
| 130 | 124 | 135 | 3,302 | 21 | 98 | 2 | 121 | 3,423 |
| 166 | 1,388 | 135 | 4,657 | 21 | 98 | 92 | 211 | 4,868 |
| 263 | 2,369 | 135 | 13,046 | 44 | 498 | 186 | 728 | 13,774 |
| | | | | | | | | |
| (14) | 2 | - | 512 | (1) | 102 | - | 101 | 613 |
| | | | | | | | | |
| 114 | 698 | 597 | 7,202 | 1,102 | 323 | 333 | 1,758 | 8,960 |
| 45 | (210) | (6) | 8 | 4 | (15) | 3 | (8) | - |
| 159 | 488 | 591 | 7,210 | 1,106 | 308 | 336 | 1,750 | 8,960 |
| | | | | | | | | |
| 118 | 1,879 | (456) | 5,324 | (1,061) | 88 | (150) | (1,123) | 4,201 |
| 43 | 608 | (65) | 1,964 | 23 | 47 | (25) | 45 | 2,009 |
| 75 | 1,271 | (391) | 3,360 | (1,084) | 41 | (125) | (1,168) | 2,192 |
| - | 4 | - | 4 | - | - | - | - | 4 |
| 75 | 1,275 | (391) | 3,364 | (1,084) | 41 | (125) | (1,168) | 2,196 |
| - | - | 364 | 364 | - | - | - | - | 364 |
| 75 | 1,275 | (27) | 3,728 | (1,084) | 41 | (125) | (1,168) | 2,560 |
| - | 15 | - | 15 | - | 11 | 9 | 20 | 35 |
| 75 | 1,290 | (27) | 3,743 | (1,084) | 52 | (116) | (1,148) | 2,595 |

# Note 28 Supervisory Activity Segments (continued)

## Information regarding supervisory activity segments (continued)

| | For the year ended December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Activity in Israel | | | | |
| | Households | Private banking | Small businesses and microbusinesses | Mid-sized businesses | Large businesses |
| Average balance of assets[1] | **108,504** | **1,047** | **60,540** | **27,925** | **54,136** |
| Of which: investments in equity-basis investees[1] | **-** | **-** | **-** | **-** | **-** |
| Average balance of gross credit to the public[1] | **109,592** | **1,057** | **61,396** | **28,349** | **54,668** |
| Balance of gross credit to the public at the end of the reported period | **112,634** | **921** | **64,672** | **29,882** | **59,059** |
| Balance of impaired debts | **689** | **-** | **1,019** | **223** | **437** |
| Balance of debts in arrears of more than 90 days | **633** | **-** | **107** | **56** | **9** |
| Average balance of liabilities[1] | **127,099** | **32,371** | **58,312** | **19,153** | **36,110** |
| Of which: average balance of deposits from the public[1] | **127,095** | **32,369** | **58,202** | **19,049** | **35,577** |
| Balance of deposits from the public at the end of the reported period | **134,655** | **34,277** | **60,823** | **20,993** | **38,990** |
| Average balance of risk-adjusted assets[1][2] | **82,011** | **1,385** | **67,200** | **41,026** | **73,977** |
| Balance of risk-adjusted assets at the end of the reported period[2] | **84,264** | **1,280** | **68,580** | **41,662** | **78,250** |
| Average balance of assets under management[1][3] | **71,989** | **47,462** | **35,128** | **15,217** | **81,507** |
| | | | | | |
| Segmentation of net interest income: | | | | | |
| Spread from credit granting activity | **2,788** | **24** | **2,084** | **649** | **942** |
| Spread from deposit taking activity | **341** | **136** | **224** | **59** | **64** |
| Other | **-** | **-** | **-** | **-** | **-** |
| Total net interest income | **3,129** | **160** | **2,308** | **708** | **1,006** |

(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.
(4) The data include balances attributed to a discontinued operation. For details, see Note 1G.

NIS millions

| For the year ended December 31, 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Activity in Israel | | | | Activity overseas | | | | Total |
| Institutional entities | Financial management | Other[4] | Total activity in Israel | Private individuals | Business activity | Other | Total activity overseas | |
| 2,583 | 149,577 | 14,003 | 418,315 | 256 | 17,112 | 16,179 | 33,547 | 451,862 |
| - | 120 | - | 120 | - | - | - | - | 120 |
| 2,192 | - | 13,883 | 271,137 | 254 | 17,173 | - | 17,427 | 288,564 |
| 1,568 | - | 14,605 | 283,341 | 109 | 17,420 | - | 17,529 | 300,870 |
| - | - | 65 | 2,433 | 17 | 336 | - | 353 | 2,786 |
| - | - | - | 805 | 3 | - | - | 3 | 808 |
| 50,107 | 52,332 | 15,696 | 391,180 | 2,861 | 9,020 | 11,885 | 23,766 | 414,946 |
| 49,814 | - | 65 | 322,171 | 2,861 | 8,968 | 9,751 | 21,580 | 343,751 |
| 43,402 | - | 82 | 333,222 | 181 | 7,967 | 10,972 | 19,120 | 352,342 |
| 7,296 | 21,526 | 18,362 | 312,783 | 1,101 | 19,003 | 471 | 20,575 | 333,358 |
| 6,341 | 21,980 | 16,078 | 318,435 | 460 | 21,145 | 557 | 22,162 | 340,597 |
| 645,547 | 63,990 | 2,870 | 963,710 | 4,698 | 14,323 | - | 19,021 | 982,731 |
| | | | | | | | | |
| 34 | 3,204 | - | 9,725 | 5 | 427 | 367 | 799 | 10,524 |
| 53 | (2,011) | - | (1,134) | 18 | (28) | (492) | (502) | (1,636) |
| 10 | (212) | - | (202) | - | 1 | 219 | 220 | 18 |
| 97 | 981 | - | 8,389 | 23 | 400 | 94 | 517 | 8,906 |

## Note 28 Supervisory Activity Segments (continued)

NIS millions

### Information regarding supervisory activity segments (continued)

| | For the year ended December 31, 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Household Segment | | | | Private Banking Segment | | | | Total |
| | Housing loans | Credit cards | Other | Total | Housing loans | Credit cards | Other | Total | |
| Interest income from externals | 2,032 | 25 | 2,419 | 4,476 | 21 | - | 20 | 41 | 4,517 |
| Interest expenses for externals | - | - | (319) | (319) | - | - | (186) | (186) | (505) |
| Net interest income: | | | | | | | | | |
| From externals | 2,032 | 25 | 2,100 | 4,157 | 21 | - | (166) | (145) | 4,012 |
| Inter-segmental | (1,435) | (2) | 409 | (1,028) | (15) | - | 320 | 305 | (723) |
| Total net interest income | 597 | 23 | 2,509 | 3,129 | 6 | - | 154 | 160 | 3,289 |
| Non-interest income: | | | | | | | | | |
| Non-interest financing income | - | - | 7 | 7 | - | - | 1 | 1 | 8 |
| Fees and other income | 59 | 209 | 1,062 | 1,330 | - | 8 | 153 | 161 | 1,491 |
| Total non-interest income | 59 | 209 | 1,069 | 1,337 | - | 8 | 154 | 162 | 1,499 |
| Total income | 656 | 232 | 3,578 | 4,466 | 6 | 8 | 308 | 322 | 4,788 |
| | | | | | | | | | |
| Provision for credit losses | 40 | - | 458 | 498 | - | - | - | - | 498 |
| Operating and other expenses: | | | | | | | | | |
| For externals | 214 | 199 | 3,342 | 3,755 | 2 | 4 | 123 | 129 | 3,884 |
| Inter-segmental | - | - | (270) | (270) | - | - | 53 | 53 | (217) |
| Total operating and other expenses | 214 | 199 | 3,072 | 3,485 | 2 | 4 | 176 | 182 | 3,667 |
| | | | | | | | | | |
| Profit from continued operations before taxes | 402 | 33 | 48 | 483 | 4 | 4 | 132 | 140 | 623 |
| Provision for taxes on profit from continued operations | 146 | 11 | 19 | 176 | 1 | 1 | 48 | 50 | 226 |
| Net profit attributed to shareholders of the Bank | 256 | 22 | 29 | 307 | 3 | 3 | 84 | 90 | 397 |

## Note 28 Supervisory Activity Segments (continued)

NIS millions

### Information regarding supervisory activity segments (continued)

| | For the year ended December 31, 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Household Segment | | | | Private Banking Segment | | | | Total |
| | Housing loans | Credit cards | Other | Total | Housing loans | Credit cards | Other | Total | |
| Average balance of assets[1] | **66,699** | **4,439** | **37,366** | **108,504** | **400** | **153** | **494** | **1,047** | **109,551** |
| Average balance of gross credit to the public[1] | **67,047** | **4,439** | **38,106** | **109,592** | **402** | **153** | **502** | **1,057** | **110,649** |
| Balance of gross credit to the public at the end of the reported period | **70,105** | **5,360** | **37,169** | **112,634** | **305** | **160** | **456** | **921** | **113,555** |
| Balance of impaired debts | **-** | **-** | **689** | **689** | **-** | **-** | **-** | **-** | **689** |
| Balance of debts in arrears of more than 90 days | **526** | **-** | **107** | **633** | **-** | **-** | **-** | **-** | **633** |
| Average balance of liabilities[1] | **-** | **-** | **127,099** | **127,099** | **-** | **-** | **32,371** | **32,371** | **159,470** |
| Of which: average balance of deposits from the public[1] | **-** | **-** | **127,095** | **127,095** | **-** | **-** | **32,369** | **32,369** | **159,464** |
| Balance of deposits from the public at the end of the reported period | **-** | **-** | **134,655** | **134,655** | **-** | **-** | **34,277** | **34,277** | **168,932** |
| Average balance of risk-adjusted assets[1][2] | **38,724** | **3,679** | **39,608** | **82,011** | **403** | **-** | **982** | **1,385** | **83,396** |
| Balance of risk-adjusted assets at the end of the reported period[2] | **40,823** | **3,679** | **39,762** | **84,264** | **177** | **-** | **1,103** | **1,280** | **85,544** |
| Average balance of assets under management[1][3] | **-** | **-** | **71,989** | **71,989** | **-** | **-** | **47,462** | **47,462** | **119,451** |
| | | | | | | | | | |
| Segmentation of net interest income: | | | | | | | | | |
| Spread from credit granting activity | **597** | **23** | **2,168** | **2,788** | **6** | **-** | **18** | **24** | **2,812** |
| Spread from deposit taking activity | **-** | **-** | **341** | **341** | **-** | **-** | **136** | **136** | **477** |
| Total net interest income | **597** | **23** | **2,509** | **3,129** | **6** | **-** | **154** | **160** | **3,289** |

(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.

## Note 28 Supervisory Activity Segments (continued)

NIS millions

### Information regarding supervisory activity segments (continued)

| | For the year ended December 31, 2018 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Small Business and Microbusiness Segment | | | Mid-sized Business Segment | | | Large Business Segment | | | Total |
| | Construction and real estate | Other | Total | Construction and real estate | Other | Total | Construction and real estate | Other | Total | |
| Interest income from externals | 753 | 1,854 | 2,607 | 381 | 501 | 882 | 426 | 1,219 | 1,645 | 5,134 |
| Interest expenses for externals | (12) | (144) | (156) | (7) | (93) | (100) | (8) | (209) | (217) | (473) |
| Net interest income: | | | | | | | | | | |
| From externals | 741 | 1,710 | 2,451 | 374 | 408 | 782 | 418 | 1,010 | 1,428 | 4,661 |
| Inter-segmental | (106) | (37) | (143) | (64) | (10) | (74) | (105) | (317) | (422) | (639) |
| Total net interest income | 635 | 1,673 | 2,308 | 310 | 398 | 708 | 313 | 693 | 1,006 | 4,022 |
| Non-interest income: | | | | | | | | | | |
| Non-interest financing income | - | 7 | 7 | - | 10 | 10 | - | 30 | 30 | 47 |
| Fees and other income | 164 | 656 | 820 | 138 | 134 | 272 | 93 | 237 | 330 | 1,422 |
| Total non-interest income | 164 | 663 | 827 | 138 | 144 | 282 | 93 | 267 | 360 | 1,469 |
| Of which: income from credit cards | - | 60 | 60 | - | 3 | 3 | - | 2 | 2 | 65 |
| Total income | 799 | 2,336 | 3,135 | 448 | 542 | 990 | 406 | 960 | 1,366 | 5,491 |
| Provision (income) for credit losses | 73 | 306 | 379 | (41) | (7) | (48) | (275) | (30) | (305) | 26 |
| Operating and other expenses: | | | | | | | | | | |
| For externals | 345 | 973 | 1,318 | 131 | 169 | 300 | 82 | 209 | 291 | 1,909 |
| Inter-segmental | 50 | 317 | 367 | 11 | 2 | 13 | 9 | 7 | 16 | 396 |
| Total operating and other expenses | 395 | 1,290 | 1,685 | 142 | 171 | 313 | 91 | 216 | 307 | 2,305 |
| Profit from continued operations before taxes | 331 | 740 | 1,071 | 347 | 378 | 725 | 590 | 774 | 1,364 | 3,160 |
| Provision for taxes on profit from continued operations | 121 | 268 | 389 | 128 | 138 | 266 | 217 | 280 | 497 | 1,152 |
| Net profit attributed to shareholders of the Bank | 210 | 472 | 682 | 219 | 240 | 459 | 373 | 494 | 867 | 2,008 |

## Note 28 Supervisory Activity Segments (continued)

NIS millions

### Information regarding supervisory activity segments (continued)

| | For the year ended December 31, 2018 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Small Business and Microbusiness Segment | | | Mid-sized Business Segment | | | Large Business Segment | | | Total |
| | Construction and real estate | Other | Total | Construction and real estate | Other | Total | Construction and real estate | Other | Total | |
| Average balance of assets[1] | 18,846 | 41,694 | 60,540 | 11,166 | 16,759 | 27,925 | 12,669 | 41,467 | 54,136 | 142,601 |
| Average balance of gross credit to the public[1] | 18,951 | 42,445 | 61,396 | 11,312 | 17,037 | 28,349 | 12,837 | 41,831 | 54,668 | 144,413 |
| Balance of gross credit to the public at the end of the reported period | 19,364 | 45,308 | 4,672 | 12,056 | 17,826 | 29,882 | 13,664 | 45,395 | 59,059 | 153,613 |
| Balance of impaired debts | 320 | 699 | 1,019 | 128 | 95 | 223 | 182 | 255 | 437 | 1,679 |
| Balance of debts in arrears of more than 90 days | 28 | 79 | 107 | - | 56 | 56 | 9 | - | 9 | 172 |
| Average balance of liabilities[1] | 9,124 | 49,188 | 58,312 | 3,819 | 15,334 | 19,153 | 5,960 | 30,150 | 36,110 | 113,575 |
| Of which: average balance of deposits from the public[1] | 9,039 | 49,163 | 58,202 | 3,727 | 15,322 | 19,049 | 5,893 | 29,684 | 35,577 | 112,828 |
| Balance of deposits from the public at the end of the reported period | 9,386 | 51,437 | 60,823 | 3,692 | 17,301 | 20,993 | 5,067 | 33,923 | 38,990 | 120,806 |
| Average balance of risk-adjusted assets[1][2] | 23,186 | 44,014 | 67,200 | 19,756 | 21,270 | 41,026 | 21,507 | 52,470 | 73,977 | 182,203 |
| Balance of risk-adjusted assets at the end of the reported period[2] | 23,668 | 44,912 | 68,580 | 20,181 | 21,481 | 41,662 | 21,892 | 56,358 | 78,250 | 188,492 |
| Average balance of assets under management[1][3] | - | 35,128 | 35,128 | - | 15,217 | 15,217 | - | 81,507 | 81,507 | 131,852 |
| | | | | | | | | | | |
| Segmentation of net interest income: | | | | | | | | | | |
| Spread from credit granting activity | 614 | 1,470 | 2,084 | 304 | 345 | 649 | 306 | 636 | 942 | 3,675 |
| Spread from deposit taking activity | 21 | 203 | 224 | 6 | 53 | 59 | 7 | 57 | 64 | 347 |
| Total net interest income | 635 | 1,673 | 2,308 | 310 | 398 | 708 | 313 | 693 | 1,006 | 4,022 |

(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.

## Note 28 Supervisory Activity Segments (continued)

NIS millions

### Information regarding supervisory activity segments (continued)

| | For the year ended December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Financial Management Segment | | | | |
| | Trading activity | Asset and liability management activity | Non-financial investment activity | Other | Total |
| Interest income from externals | 41 | 858 | - | 1 | 900 |
| Interest expenses for externals | - | (1,029) | - | - | (1,029) |
| Net interest income: | | | | | |
| From externals | 41 | (171) | - | 1 | (129) |
| Inter-segmental | - | 1,125 | (9) | (6) | 1,110 |
| Total net interest income | 41 | 954 | (9) | (5) | 981 |
| Non-interest financing income: | | | | | |
| From externals | 1,581 | (780) | 405 | 58 | 1,264 |
| Inter-segmental | (1,413) | 1,413 | - | - | - |
| Fees and other income | - | 64 | - | 60 | 124 |
| Total non-interest income | 168 | 697 | 405 | 118 | 1,388 |
| Total income | 209 | 1,651 | 396 | 113 | 2,369 |
| | | | | | |
| Provision for credit losses | - | 2 | - | - | 2 |
| Operating and other expenses: | | | | | |
| For externals | 191 | 162 | 34 | 311 | 698 |
| Inter-segmental | (5) | 9 | - | (214) | (210) |
| Total operating and other expenses | 186 | 171 | 34 | 97 | 488 |
| | | | | | |
| Profit from continued operations before taxes | 23 | 1,478 | 362 | 16 | 1,879 |
| Provision for taxes on profit from continued operations | 8 | 471 | 124 | 5 | 608 |
| Profit from continued operations after taxes | 15 | 1,007 | 238 | 11 | 1,271 |
| The Bank's share in profits of equity-basis investees | - | - | 4 | - | 4 |
| Net profit before attribution to non-controlling interests | 15 | 1,007 | 242 | 11 | 1,275 |
| Loss attributed to non-controlling interests | - | 15 | - | - | 15 |
| Net profit attributed to shareholders of the Bank | 15 | 1,022 | 242 | 11 | 1,290 |

## Note 28 Supervisory Activity Segments (continued)

NIS millions

### Information regarding supervisory activity segments (continued)

| | For the year ended December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Financial Management Segment | | | | |
| | Trading activity | Asset and liability management activity | Non-financial investment activity | Other | Total |
| Average balance of assets[1] | **22,306** | **124,526** | **2,380** | **365** | **149,577** |
| Of which: investments in equity-basis investees[1] | **-** | **-** | **120** | **-** | **120** |
| Average balance of liabilities[1] | **8,997** | **43,248** | **-** | **87** | **52,332** |
| Average balance of risk-adjusted assets[1][2] | **6,891** | **12,454** | **2,181** | **-** | **21,526** |
| Balance of risk-adjusted assets at the end of the reported period[2] | **5,699** | **14,567** | **1,714** | **-** | **21,980** |
| Average balance of assets under management[1][3] | **-** | **63,990** | **-** | **-** | **63,990** |
| **Components of net interest income and non-interest income** | | | | | |
| Net exchange-rate differences[4] | **64** | **106** | **-** | **-** | **-** |
| Net CPI differences[4] | **-** | **127** | **-** | **-** | **-** |
| Net interest exposures[4] | **37** | **575** | **-** | **-** | **-** |
| Net share exposures[4] | **9** | **-** | **-** | **-** | **-** |
| Interest spreads attributed to financial management | **-** | **626** | **-** | **-** | **-** |
| Total net interest income and non-interest income based on accrual base | **110** | **1,434** | **-** | **-** | **-** |
| Profits or losses from sale or other-than-temporary impairment of bonds | **-** | **153** | **-** | **-** | **-** |
| Change in gap between fair value and accrual base of derivative instruments recorded in profit and loss | **-** | **64** | **-** | **-** | **-** |
| Other non-interest income | **99** | **-** | **-** | **-** | **-** |
| Total net interest income and non-interest income | **209** | **1,651** | **-** | **-** | **-** |

(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.
(4) Including in respect of securities and derivative instruments.

## Note 28 Supervisory Activity Segments (continued)

### Information regarding supervisory activity segments (continued)

| | For the year ended December 31, 2017* | | | | |
|---|---|---|---|---|---|
| | Activity in Israel | | | | |
| | Households | Private banking | Small businesses and microbusinesses | Mid-sized businesses | Large businesses |
| Interest income from externals | 3,921 | 38 | 2,471 | 813 | 1,566 |
| Interest expenses for externals | (292) | (125) | (77) | (49) | (145) |
| Net interest income: | | | | | |
| From externals | 3,629 | (87) | 2,394 | 764 | 1,421 |
| Inter-segmental | (758) | 211 | (193) | (112) | (431) |
| Total net interest income | 2,871 | 124 | 2,201 | 652 | 990 |
| Non-interest income: | | | | | |
| Non-interest financing income | 6 | 1 | 9 | 14 | 35 |
| Fees and other income | 1,327 | 152 | 809 | 265 | 343 |
| Total non-interest income | 1,333 | 153 | 818 | 279 | 378 |
| Total income | 4,204 | 277 | 3,019 | 931 | 1,368 |
| | | | | | |
| Provision (income) for credit losses | 534 | - | 497 | (255) | (613) |
| Operating and other expenses: | | | | | |
| For externals | 3,667 | 126 | 1,340 | 288 | 252 |
| Inter-segmental | (249) | 49 | 314 | 19 | 43 |
| Total operating and other expenses | 3,418 | 175 | 1,654 | 307 | 295 |
| | | | | | |
| Profit (loss) from continued operations before taxes | 252 | 102 | 868 | 879 | 1,686 |
| Provision for taxes (tax benefit) on profit (loss) from continued operations | 103 | 38 | 333 | 338 | 651 |
| Profit (loss) from continued operations after taxes | 149 | 64 | 535 | 541 | 1,035 |
| The Bank's share in profits of equity-basis investees | - | - | - | - | - |
| Net profit (loss) from continued operations | 149 | 64 | 535 | 541 | 1,035 |
| Net profit from a discontinued operation | - | - | - | - | - |
| Net profit (loss) before attribution to non-controlling interests | 149 | 64 | 535 | 541 | 1,035 |
| Loss (profit) attributed to non-controlling interests | - | - | - | - | - |
| Net profit (loss) attributed to shareholders of the Bank | 149 | 64 | 535 | 541 | 1,035 |

* Reclassified; for additional information, see explanation above.

NIS millions

| For the year ended December 31, 2017* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Activity in Israel | | | | Activity overseas | | | | Total |
| Institutional entities | Financial management | Other | Total activity in Israel | Private individuals | Business activity | Other | Total activity overseas | |
| 50 | 800 | - | 9,659 | 19 | 653 | 282 | 954 | 10,613 |
| (348) | (908) | - | (1,944) | (11) | (86) | (148) | (245) | (2,189) |
| | | | | | | | | |
| (298) | (108) | - | 7,715 | 8 | 567 | 134 | 709 | 8,424 |
| 377 | 1,061 | - | 155 | 30 | (112) | (73) | (155) | - |
| 79 | 953 | - | 7,870 | 38 | 455 | 61 | 554 | 8,424 |
| | | | | | | | | |
| 18 | 508 | 3 | 594 | - | (1) | 59 | 58 | 652 |
| 129 | 114 | 149 | 3,288 | 51 | 105 | 57 | 213 | 3,501 |
| 147 | 622 | 152 | 3,882 | 51 | 104 | 116 | 271 | 4,153 |
| 226 | 1,575 | 152 | 11,752 | 89 | 559 | 177 | 825 | 12,577 |
| | | | | | | | | |
| 2 | - | - | 165 | 4 | 34 | (1) | 37 | 202 |
| | | | | | | | | |
| 118 | 711 | 494 | 6,996 | 317 | 432 | 376 | 1,125 | 8,121 |
| 40 | (211) | (2) | 3 | 4 | (17) | 10 | (3) | - |
| 158 | 500 | 492 | 6,999 | 321 | 415 | 386 | 1,122 | 8,121 |
| | | | | | | | | |
| 66 | 1,075 | (340) | 4,588 | (236) | 110 | (208) | (334) | 4,254 |
| 26 | 396 | 38 | 1,923 | (1) | 53 | (16) | 36 | 1,959 |
| 40 | 679 | (378) | 2,665 | (235) | 57 | (192) | (370) | 2,295 |
| - | 17 | - | 17 | - | - | - | - | 17 |
| 40 | 696 | (378) | 2,682 | (235) | 57 | (192) | (370) | 2,312 |
| - | - | 314 | 314 | - | - | - | - | 314 |
| 40 | 696 | (64) | 2,996 | (235) | 57 | (192) | (370) | 2,626 |
| - | 15 | - | 15 | 3 | (2) | 18 | 19 | 34 |
| 40 | 711 | (64) | 3,011 | (232) | 55 | (174) | (351) | 2,660 |

## Note 28 Supervisory Activity Segments (continued)

### Information regarding supervisory activity segments (continued)

| | For the year ended December 31, 2017* | | | | |
|---|---|---|---|---|---|
| | Activity in Israel | | | | |
| | Households | Private banking | Small businesses and microbusinesses | Mid-sized businesses | Large businesses |
| Average balance of assets[1] | 106,714 | 1,003 | 56,485 | 26,768 | 49,401 |
| Of which: investments in equity-basis investees[1] | - | - | - | - | - |
| Average balance of gross credit to the public[1] | 107,542 | 1,015 | 57,453 | 27,318 | 50,292 |
| Balance of gross credit to the public at the end of the reported period | 109,604 | 866 | 60,105 | 28,146 | 53,210 |
| Balance of impaired debts | 714 | - | 925 | 389 | 512 |
| Balance of debts in arrears of more than 90 days | 686 | 1 | 218 | - | - |
| Average balance of liabilities[1] | 122,974 | 31,697 | 52,674 | 19,665 | 36,627 |
| Of which: average balance of deposits from the public[1] | 122,963 | 31,695 | 52,560 | 19,561 | 36,113 |
| Balance of deposits from the public at the end of the reported period | 123,759 | 31,788 | 57,412 | 20,700 | 36,654 |
| Average balance of risk-adjusted assets[1][2] | 81,498 | 1,722 | 61,368 | 37,387 | 69,108 |
| Balance of risk-adjusted assets at the end of the reported period[2] | 81,918 | 1,480 | 65,105 | 38,573 | 69,070 |
| Average balance of assets under management[1][3] | 71,519 | 45,119 | 24,098 | 15,564 | 85,091 |
| | | | | | |
| Segmentation of net interest income: | | | | | |
| Spread from credit granting activity | 2,604 | 23 | 2,087 | 611 | 932 |
| Spread from deposit taking activity | 267 | 101 | 114 | 41 | 58 |
| Other | - | - | - | - | - |
| Total net interest income | 2,871 | 124 | 2,201 | 652 | 990 |

* Reclassified; for additional information, see explanation above.
(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.
(4) The data include balances attributed to a discontinued operation. For details, see Note 1G.

NIS millions

| For the year ended December 31, 2017* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Activity in Israel | | | | Activity overseas | | | | Total |
| Institutional entities | Financial management | Other[4] | Total activity in Israel | Private individuals | Business activity | Other | Total activity overseas | |
| 2,300 | 152,989 | 13,005 | 408,665 | 655 | 15,963 | 24,848 | 41,466 | 450,131 |
| - | 169 | 5 | 174 | - | - | - | - | 174 |
| 1,904 | - | 12,298 | 257,822 | 655 | 16,175 | - | 16,830 | 274,652 |
| 2,417 | - | 13,002 | 267,350 | 462 | 14,695 | - | 15,157 | 282,507 |
| - | - | 37 | 2,577 | 35 | 52 | - | 87 | 2,664 |
| - | - | - | 905 | 4 | 4 | - | 8 | 913 |
| 52,949 | 54,834 | 15,310 | 386,730 | 4,697 | 12,331 | 11,037 | 28,065 | 414,795 |
| 52,422 | - | 7 | 315,321 | 4,697 | 12,321 | 8,438 | 25,456 | 340,777 |
| 56,173 | - | 7 | 326,493 | 3,333 | 9,962 | 7,563 | 20,858 | 347,351 |
| 5,711 | 24,802 | 18,081 | 299,677 | 1,600 | 19,007 | 469 | 21,076 | 320,753 |
| 6,550 | 22,555 | 19,257 | 304,508 | 1,628 | 17,973 | 663 | 20,264 | 324,772 |
| 655,069 | 59,768 | 2,532 | 958,760 | 6,788 | 13,653 | - | 20,441 | 979,201 |
| | | | | | | | | |
| | | | | | | | | |
| 28 | 2,653 | - | 8,938 | 16 | 444 | 277 | 737 | 9,675 |
| 41 | (1,438) | - | (816) | 22 | 11 | (354) | (321) | (1,137) |
| 10 | (262) | - | (252) | - | - | 138 | 138 | (114) |
| 79 | 953 | - | 7,870 | 38 | 455 | 61 | 554 | 8,424 |

## Note 28 Supervisory Activity Segments (continued)

NIS millions

### Information regarding supervisory activity segments (continued)

| | For the year ended December 31, 2017* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Household Segment | | | | Private Banking Segment | | | | Total |
| | Housing loans | Credit cards | Other | Total | Housing loans | Credit cards | Other | Total | |
| Interest income from externals | 1,572 | 25 | 2,324 | 3,921 | 19 | - | 19 | 38 | 3,959 |
| Interest expenses for externals | - | - | (292) | (292) | - | - | (125) | (125) | (417) |
| Net interest income: | | | | | | | | | |
| From externals | 1,572 | 25 | 2,032 | 3,629 | 19 | - | (106) | (87) | 3,542 |
| Inter-segmental | (1,095) | (2) | 339 | (758) | (13) | - | 224 | 211 | (547) |
| Total net interest income | 477 | 23 | 2,371 | 2,871 | 6 | - | 118 | 124 | 2,995 |
| Non-interest income: | | | | | | | | | |
| Non-interest financing income | - | - | 6 | 6 | - | - | 1 | 1 | 7 |
| Fees and other income | 60 | 202 | 1,065 | 1,327 | - | 7 | 145 | 152 | 1,479 |
| Total non-interest income | 60 | 202 | 1,071 | 1,333 | - | 7 | 146 | 153 | 1,486 |
| Total income | 537 | 225 | 3,442 | 4,204 | 6 | 7 | 264 | 277 | 4,481 |
| Provision (income) for credit losses | (14) | - | 548 | 534 | - | - | - | - | 534 |
| Operating and other expenses: | | | | | | | | | |
| For externals | 219 | 197 | 3,252 | 3,667 | 2 | 4 | 120 | 126 | 3,793 |
| Inter-segmental | - | - | (249) | (249) | - | - | 49 | 49 | (200) |
| Total operating and other expenses | 219 | 197 | 3,003 | 3,418 | 2 | 4 | 169 | 175 | 3,593 |
| Profit (loss) from continued operations before taxes | 333 | 28 | (108) | 252 | 4 | 3 | 95 | 102 | 354 |
| Provision for taxes (tax benefit) on profit (loss) from continued operations | 137 | 10 | (44) | 103 | 1 | - | 37 | 38 | 141 |
| Net profit (loss) attributed to shareholders of the Bank | 196 | 18 | (64) | 149 | 3 | 3 | 58 | 64 | 213 |

* Reclassified; for additional information, see explanation above.

## Note 28 Supervisory Activity Segments (continued)

NIS millions

### Information regarding supervisory activity segments (continued)

| | For the year ended December 31, 2017* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Household Segment | | | | Private Banking Segment | | | | Total |
| | Housing loans | Credit cards | Other | Total | Housing loans | Credit cards | Other | Total | |
| Average balance of assets[1] | 63,843 | 6,112 | 36,759 | 106,714 | 458 | 5 | 540 | 1,003 | 107,717 |
| Average balance of gross credit to the public[1] | 64,200 | 6,112 | 37,230 | 107,542 | 462 | 5 | 548 | 1,015 | 108,557 |
| Balance of gross credit to the public at the end of the reported period | 64,804 | 6,072 | 38,728 | 109,604 | 372 | 5 | 489 | 866 | 110,470 |
| Balance of impaired debts | - | - | 714 | 714 | - | - | - | - | 714 |
| Balance of debts in arrears of more than 90 days | 591 | - | 95 | 686 | 1 | - | - | 1 | 687 |
| Average balance of liabilities[1] | 6 | - | 122,968 | 122,974 | - | - | 31,697 | 31,697 | 154,671 |
| Of which: average balance of deposits from the public[1] | - | - | 122,963 | 122,963 | - | - | 31,695 | 31,695 | 154,658 |
| Balance of deposits from the public at the end of the reported period | - | - | 123,759 | 123,759 | - | - | 31,788 | 31,788 | 155,547 |
| Average balance of risk-adjusted assets[1][2] | 36,469 | 3,848 | 41,181 | 81,498 | 516 | - | 1,206 | 1,722 | 83,220 |
| Balance of risk-adjusted assets at the end of the reported period[2] | 36,687 | 3,860 | 41,371 | 81,918 | 448 | - | 1,032 | 1,480 | 83,398 |
| Average balance of assets under management[1][3] | - | - | 71,519 | 71,519 | - | - | 45,119 | 45,119 | 116,638 |
| | | | | | | | | | |
| Segmentation of net interest income: | | | | | | | | | |
| Spread from credit granting activity | 477 | 23 | 2,104 | 2,604 | 6 | - | 17 | 23 | 2,627 |
| Spread from deposit taking activity | - | - | 267 | 267 | - | - | 101 | 101 | 368 |
| Total net interest income | 477 | 23 | 2,371 | 2,871 | 6 | - | 118 | 124 | 2,995 |

* Reclassified; for additional information, see explanation above.
(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.

## Note 28 Supervisory Activity Segments (continued)

NIS millions

### Information regarding supervisory activity segments (continued)

| | For the year ended December 31, 2017* | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Small Business and Microbusiness Segment | | | Mid-sized Business Segment | | | Large Business Segment | | | Total |
| | Construction and real estate | Other | Total | Construction and real estate | Other | Total | Construction and real estate | Other | Total | |
| Interest income from externals | 682 | 1,789 | 2,471 | 353 | 460 | 813 | 371 | 1,195 | 1,566 | 4,850 |
| Interest expenses for externals | (6) | (71) | (77) | (8) | (41) | (49) | (10) | (135) | (145) | (271) |
| Net interest income: | | | | | | | | | | |
| From externals | 676 | 1,718 | 2,394 | 345 | 419 | 764 | 361 | 1,060 | 1,421 | 4,579 |
| Inter-segmental | (94) | (99) | (193) | (64) | (48) | (112) | (87) | (344) | (431) | (736) |
| Total net interest income | 582 | 1,619 | 2,201 | 281 | 371 | 652 | 274 | 716 | 990 | 3,843 |
| Non-interest income: | | | | | | | | | | |
| Non-interest financing income | - | 9 | 9 | - | 14 | 14 | - | 35 | 35 | 58 |
| Fees and other income | 205 | 604 | 809 | 161 | 104 | 265 | 163 | 180 | 343 | 1,417 |
| Total non-interest income | 205 | 613 | 818 | 161 | 118 | 279 | 163 | 215 | 378 | 1,475 |
| Of which: income from credit cards | - | 55 | 55 | - | 3 | 3 | - | 1 | 1 | 59 |
| Total income | 787 | 2,232 | 3,019 | 442 | 489 | 931 | 437 | 931 | 1,368 | 5,318 |
| Provision (income) for credit losses | 66 | 431 | 497 | (241) | (14) | (255) | (249) | (364) | (613) | (371) |
| Operating and other expenses: | | | | | | | | | | |
| For externals | 349 | 991 | 1,340 | 148 | 140 | 288 | 100 | 152 | 252 | 1,880 |
| Inter-segmental | 62 | 252 | 314 | 10 | 9 | 19 | 10 | 33 | 43 | 376 |
| Total operating and other expenses | 411 | 1,243 | 1,654 | 158 | 149 | 307 | 110 | 185 | 295 | 2,256 |
| Profit before taxes | 310 | 558 | 868 | 525 | 354 | 879 | 576 | 1,110 | 1,686 | 3,433 |
| Provision for taxes on profit | 119 | 214 | 333 | 202 | 136 | 338 | 222 | 429 | 651 | 1,322 |
| Net profit attributed to shareholders of the Bank | 191 | 344 | 535 | 323 | 218 | 541 | 354 | 681 | 1,035 | 2,111 |

* Reclassified; for additional information, see explanation above.

## Note 28 Supervisory Activity Segments (continued)

NIS millions

### Information regarding supervisory activity segments (continued)

| | For the year ended December 31, 2017* | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Small Business and Microbusiness Segment | | | Mid-sized Business Segment | | | Large Business Segment | | | Total |
| | Construction and real estate | Other | Total | Construction and real estate | Other | Total | Construction and real estate | Other | Total | |
| Average balance of assets[1] | 17,330 | 39,155 | 56,485 | 10,113 | 16,655 | 26,768 | 11,887 | 37,514 | 49,401 | 132,654 |
| Average balance of gross credit to the public[1] | 17,588 | 39,865 | 57,453 | 10,248 | 17,070 | 27,318 | 12,070 | 38,222 | 50,292 | 135,063 |
| Balance of gross credit to the public at the end of the reported period | 18,615 | 41,490 | 60,105 | 10,904 | 17,242 | 28,146 | 13,179 | 40,031 | 53,210 | 141,461 |
| Balance of impaired debts | 315 | 610 | 925 | 240 | 149 | 389 | 72 | 440 | 512 | 1,826 |
| Balance of debts in arrears of more than 90 days | 74 | 144 | 218 | - | - | - | - | - | - | 218 |
| Average balance of liabilities[1] | 8,135 | 44,539 | 52,674 | 4,191 | 15,474 | 19,665 | 4,741 | 31,886 | 36,627 | 108,966 |
| Of which: average balance of deposits from the public[1] | 8,046 | 44,514 | 52,560 | 4,098 | 15,463 | 19,561 | 4,669 | 31,444 | 36,113 | 108,234 |
| Balance of deposits from the public at the end of the reported period | 8,891 | 48,521 | 57,412 | 4,022 | 16,678 | 20,700 | 4,760 | 31,894 | 36,654 | 114,766 |
| Average balance of risk-adjusted assets[1][2] | 22,016 | 39,352 | 61,368 | 16,994 | 20,393 | 37,387 | 18,958 | 50,150 | 69,108 | 167,863 |
| Balance of risk-adjusted assets at the end of the reported period[2] | 23,636 | 41,469 | 65,105 | 17,480 | 21,093 | 38,573 | 19,523 | 49,547 | 69,070 | 172,748 |
| Average balance of assets under management[1][3] | - | 24,098 | 24,098 | - | 15,564 | 15,564 | - | 85,091 | 85,091 | 124,753 |
| | | | | | | | | | | |
| Segmentation of net interest income: | | | | | | | | | | |
| Spread from credit granting activity | 582 | 1,505 | 2,087 | 281 | 330 | 611 | 274 | 658 | 932 | 3,630 |
| Spread from deposit taking activity | - | 114 | 114 | - | 41 | 41 | - | 58 | 58 | 213 |
| Total net interest income | 582 | 1,619 | 2,201 | 281 | 371 | 652 | 274 | 716 | 990 | 3,843 |

* Reclassified; for additional information, see explanation above.
(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.

## Note 28 Supervisory Activity Segments (continued)

NIS millions

### Information regarding supervisory activity segments (continued)

| | For the year ended December 31, 2017* | | | | |
|---|---|---|---|---|---|
| | Financial Management Segment | | | | |
| | Trading activity | Asset and liability management activity | Non-financial investment activity | Other | Total |
| Interest income from externals | 24 | 774 | - | 2 | 800 |
| Interest expenses for externals | - | (908) | - | - | (908) |
| Net interest income: | | | | | |
| From externals | 24 | (134) | - | 2 | (108) |
| Inter-segmental | - | 1,070 | (6) | (3) | 1,061 |
| Total net interest income | 24 | 936 | (6) | (1) | 953 |
| Non-interest income | | | | | |
| From externals | (427) | 754 | 179 | 2 | 508 |
| Inter-segmental | 595 | (595) | - | - | - |
| Fees and other income | - | 77 | - | 37 | 114 |
| Total non-interest income | 168 | 236 | 179 | 39 | 622 |
| Total income | 192 | 1,172 | 173 | 38 | 1,575 |
| | | | | | |
| Operating and other expenses: | | | | | |
| For externals | 192 | 257 | 17 | 245 | 711 |
| Inter-segmental | - | (42) | - | (169) | (211) |
| Total operating and other expenses | 192 | 215 | 17 | 76 | 500 |
| | | | | | |
| Profit (loss) from continued operations before taxes | - | 957 | 156 | (38) | 1,075 |
| Provision for taxes (tax benefit) on profit (loss) from continued operations | - | 354 | 55 | (13) | 396 |
| Profit (loss) from continued operations after taxes | - | 603 | 101 | (25) | 679 |
| The Bank's share in profits of equity-basis investees | - | - | 17 | - | 17 |
| Net profit (loss) before attribution to non-controlling interests | - | 603 | 118 | (25) | 696 |
| Net profit (loss) attributed to non-controlling interests | - | 16 | (1) | - | 15 |
| Net profit (loss) attributed to shareholders of the Bank | - | 619 | 117 | (25) | 711 |

* Reclassified; for additional information, see explanation above.

## Note 28 Supervisory Activity Segments (continued)

NIS millions

### Information regarding supervisory activity segments (continued)

| | For the year ended December 31, 2017* | | | | |
|---|---|---|---|---|---|
| | Financial Management Segment | | | | |
| | Trading activity | Asset and liability management activity | Non-financial investment activity | Other | Total |
| Average balance of assets[1] | 14,856 | 135,664 | 2,172 | 297 | 152,989 |
| Of which: investments in equity-basis investees[1] | - | - | 169 | - | 169 |
| Average balance of liabilities[1] | 11,774 | 42,962 | - | 98 | 54,834 |
| Average balance of risk-adjusted assets[1][2] | 9,607 | 12,782 | 2,413 | - | 24,802 |
| Balance of risk-adjusted assets at the end of the reported period[2] | 10,226 | 9,956 | 2,373 | - | 22,555 |
| Average balance of assets under management[1][3] | - | 59,768 | - | - | 59,768 |
| **Components of net interest income and non-interest income** | | | | | |
| Net exchange-rate differences[4] | 38 | (26) | - | - | - |
| Net CPI differences[4] | - | 38 | - | - | - |
| Net interest exposures[4] | 39 | 564 | - | - | - |
| Net share exposures[4] | 18 | - | - | - | - |
| Interest spreads attributed to financial management | - | 528 | - | - | - |
| Total net interest income and non-interest income based on accrual base | 95 | 1,104 | - | - | - |
| Profits or losses from sale or other-than-temporary impairment of bonds | - | 108 | - | - | - |
| Change in gap between fair value and accrual base of derivative instruments recorded in profit and loss | - | (40) | - | - | - |
| Other non-interest income | 97 | - | - | - | - |
| Total net interest income and non-interest income | 192 | 1,172 | - | - | - |

* Reclassified; for additional information, see explanation above.
(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.
(4) Including in respect of securities and derivative instruments.

## Note 28 Supervisory Activity Segments (continued)

### Information regarding supervisory activity segments (continued)

| | For the year ended December 31, 2016* | | | | |
|---|---|---|---|---|---|
| | Activity in Israel | | | | |
| | Households | Private banking | Small businesses and microbusinesses | Mid-sized businesses | Large businesses |
| Interest income from externals | 3,660 | 40 | 2,112 | 785 | 1,577 |
| Interest expenses for externals | (268) | (97) | (26) | (24) | (87) |
| Net interest income: | | | | | |
| From externals | 3,392 | (57) | 2,086 | 761 | 1,490 |
| Inter-segmental | (625) | 161 | (226) | (137) | (471) |
| Total net interest income | 2,767 | 104 | 1,860 | 624 | 1,019 |
| Non-interest income | | | | | |
| Non-interest financing income | 7 | 2 | 10 | 18 | 161 |
| Fees and other income | 1,357 | 153 | 784 | 283 | 383 |
| Total non-interest income | 1,364 | 155 | 794 | 301 | 544 |
| Total income | 4,131 | 259 | 2,654 | 925 | 1,563 |
| | | | | | |
| Provision (income) for credit losses | 364 | (1) | 212 | (92) | (417) |
| Operating and other expenses: | | | | | |
| For externals | 3,568 | 120 | 1,351 | 328 | 273 |
| Inter-segmental | (242) | 51 | 295 | (6) | 61 |
| Total operating and other expenses | 3,326 | 171 | 1,646 | 322 | 334 |
| | | | | | |
| Profit (loss) from continued operations before taxes | 441 | 89 | 796 | 695 | 1,646 |
| Provision for taxes (tax benefit) on profit (loss) from continued operations | 160 | 35 | 297 | 262 | 623 |
| Profit (loss) from continued operations after taxes | 281 | 54 | 499 | 433 | 1,023 |
| The Bank's share in profits of equity-basis investees | - | - | - | - | - |
| Net profit (loss) from continued operations | 281 | 54 | 499 | 433 | 1,023 |
| Net profit from a discontinued operation | - | - | - | - | - |
| Net profit (loss) before attribution to non-controlling interests | 281 | 54 | 499 | 433 | 1,023 |
| Loss (profit) attributed to non-controlling interests | - | - | - | - | - |
| Net profit (loss) attributed to shareholders of the Bank | 281 | 54 | 499 | 433 | 1,023 |

* Reclassified; for additional information, see explanation above.

NIS millions

| For the year ended December 31, 2016* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Activity in Israel | | | | Activity overseas | | | | Total |
| Institutional entities | Financial management | Other | Total activity in Israel | Private individuals | Business activity | Other | Total activity overseas | |
| 46 | 791 | - | 9,011 | 56 | 700 | 195 | 951 | 9,962 |
| (246) | (1,026) | - | (1,774) | (18) | (62) | (150) | (230) | (2,004) |
| | | | | | | | | |
| (200) | (235) | - | 7,237 | 38 | 638 | 45 | 721 | 7,958 |
| 271 | 1,128 | - | 101 | 35 | (173) | 37 | (101) | - |
| 71 | 893 | - | 7,338 | 73 | 465 | 82 | 620 | 7,958 |
| | | | | | | | | |
| 22 | 816 | 2 | 1,038 | 1 | 34 | 90 | 125 | 1,163 |
| 151 | 137 | 176 | 3,424 | 139 | 159 | 32 | 330 | 3,754 |
| 173 | 953 | 178 | 4,462 | 140 | 193 | 122 | 455 | 4,917 |
| 244 | 1,846 | 178 | 11,800 | 213 | 658 | 204 | 1,075 | 12,875 |
| | | | | | | | | |
| (4) | 4 | - | 66 | 4 | 109 | - | 113 | 179 |
| | | | | | | | | |
| 106 | 771 | 345 | 6,862 | 637 | 412 | 231 | 1,280 | 8,142 |
| 45 | (166) | (36) | 2 | 8 | (17) | 7 | (2) | - |
| 151 | 605 | 309 | 6,864 | 645 | 395 | 238 | 1,278 | 8,142 |
| | | | | | | | | |
| 97 | 1,237 | (131) | 4,870 | (436) | 154 | (34) | (316) | 4,554 |
| 36 | 439 | 337 | 2,189 | (19) | 62 | (3) | 40 | 2,229 |
| 61 | 798 | (468) | 2,681 | (417) | 92 | (31) | (356) | 2,325 |
| - | 12 | - | 12 | - | - | - | - | 12 |
| 61 | 810 | (468) | 2,693 | (417) | 92 | (31) | (356) | 2,337 |
| - | - | 274 | 274 | - | - | - | - | 274 |
| 61 | 810 | (194) | 2,967 | (417) | 92 | (31) | (356) | 2,611 |
| - | 17 | - | 17 | 2 | (2) | - | - | 17 |
| 61 | 827 | (194) | 2,984 | (415) | 90 | (31) | (356) | 2,628 |

## Note 28 Supervisory Activity Segments (continued)

### Information regarding supervisory activity segments (continued)

| | For the year ended December 31, 2016* | | | | |
|---|---|---|---|---|---|
| | Activity in Israel | | | | |
| | Households | Private banking | Small businesses and microbusinesses | Mid-sized businesses | Large businesses |
| Average balance of assets[1] | 103,502 | 1,749 | 57,097 | 27,457 | 53,474 |
| Of which: investments in equity-basis investees[1] | - | - | - | - | - |
| Average balance of gross credit to the public[1] | 104,239 | 1,840 | 56,494 | 27,114 | 55,109 |
| Balance of gross credit to the public at the end of the reported period | 105,043 | 1,450 | 56,241 | 28,509 | 51,733 |
| Balance of impaired debts | 699 | 1 | 920 | 476 | 1,723 |
| Balance of debts in arrears of more than 90 days | 689 | - | 190 | 1 | 4 |
| Average balance of liabilities[1] | 122,317 | 31,829 | 41,045 | 18,053 | 36,254 |
| Of which: average balance of deposits from the public[1] | 122,303 | 31,822 | 40,965 | 17,991 | 35,772 |
| Balance of deposits from the public at the end of the reported period | 122,601 | 31,982 | 49,191 | 18,994 | 38,184 |
| Average balance of risk-adjusted assets[1][2] | 81,925 | 2,345 | 58,840 | 38,324 | 75,236 |
| Balance of risk-adjusted assets at the end of the reported period[2] | 83,670 | 1,929 | 60,744 | 37,088 | 59,981 |
| Average balance of assets under management[1][3] | 75,050 | 46,903 | 16,666 | 14,122 | 73,369 |
| | | | | | |
| Segmentation of net interest income: | | | | | |
| Spread from credit granting activity | 2,517 | 23 | 1,805 | 593 | 974 |
| Spread from deposit taking activity | 236 | 81 | 52 | 30 | 39 |
| Other | 14 | - | 3 | 1 | 6 |
| Total net interest income | 2,767 | 104 | 1,860 | 624 | 1,019 |

* Reclassified; for additional information, see explanation above.
(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.

NIS millions

| For the year ended December 31, 2016* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Activity in Israel | | | | Activity overseas | | | | Total |
| Institutional entities | Financial management | Other[4] | Total activity in Israel | Private individuals | Business activity | Other | Total activity overseas | |
| 2,643 | 131,077 | 12,097 | 389,096 | 2,087 | 19,135 | 30,898 | 52,120 | 441,216 |
| - | 146 | 3 | 149 | - | - | - | - | 149 |
| 2,235 | - | 11,404 | 258,435 | 2,082 | 19,056 | - | 21,138 | 279,573 |
| 2,137 | - | 12,243 | 257,356 | 1,544 | 17,184 | - | 18,728 | 276,084 |
| - | - | 27 | 3,846 | 31 | 98 | - | 129 | 3,975 |
| - | - | - | 884 | - | - | - | - | 884 |
| 44,258 | 59,880 | 15,232 | 368,868 | 10,514 | 16,677 | 11,243 | 38,434 | 407,302 |
| 43,370 | - | 8 | 292,231 | 10,215 | 15,836 | 8,005 | 34,056 | 326,287 |
| 46,567 | - | 8 | 307,527 | 9,013 | 15,816 | 6,146 | 30,975 | 338,502 |
| 5,206 | 29,010 | 17,282 | 308,168 | 2,642 | 23,455 | 450 | 26,547 | 334,715 |
| 4,969 | 28,946 | 17,364 | 294,691 | 1,954 | 21,284 | 450 | 23,688 | 318,379 |
| 663,651 | 61,213 | 2,198 | 953,172 | 15,869 | 15,806 | - | 31,675 | 984,847 |
| | | | | | | | | |
| | | | | | | | | |
| 25 | 2,632 | - | 8,569 | 47 | 459 | 153 | 659 | 9,228 |
| 37 | (1,247) | - | (772) | 26 | 6 | (161) | (129) | (901) |
| 9 | (492) | - | (459) | - | - | 90 | 90 | (369) |
| 71 | 893 | - | 7,338 | 73 | 465 | 82 | 620 | 7,958 |

## Note 28 Supervisory Activity Segments (continued)

NIS millions

### Information regarding supervisory activity segments (continued)

| | For the year ended December 31, 2016* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Household Segment | | | | Private Banking Segment | | | | Total |
| | Housing loans | Credit cards | Other | Total | Housing loans | Credit cards | Other | Total | |
| Interest income from externals | 1,307 | 27 | 2,326 | 3,660 | 17 | - | 23 | 40 | 3,700 |
| Interest expenses for externals | - | - | (268) | (268) | - | - | (97) | (97) | (365) |
| Net interest income: | | | | | | | | | |
| From externals | 1,307 | 27 | 2,058 | 3,392 | 17 | - | (74) | (57) | 3,335 |
| Inter-segmental | (924) | - | 299 | (625) | (13) | - | 174 | 161 | (464) |
| Total net interest income | 383 | 27 | 2,357 | 2,767 | 4 | - | 100 | 104 | 2,871 |
| Non-interest income: | | | | | | | | | |
| Non-interest financing income | - | - | 7 | 7 | - | - | 2 | 2 | 9 |
| Fees and other income | 63 | 230 | 1,064 | 1,357 | - | 9 | 144 | 153 | 1,510 |
| Total non-interest income | 63 | 230 | 1,071 | 1,364 | - | 9 | 146 | 155 | 1,519 |
| Total income | 446 | 257 | 3,428 | 4,131 | 4 | 9 | 246 | 259 | 4,390 |
| Provision (income) for credit losses | 2 | - | 362 | 364 | - | - | (1) | (1) | 363 |
| Operating and other expenses: | | | | | | | | | |
| For externals | 187 | 144 | 3,237 | 3,568 | 2 | 4 | 114 | 120 | 3,688 |
| Inter-segmental | - | - | (242) | (242) | - | - | 51 | 51 | (191) |
| Total operating and other expenses | 187 | 144 | 2,995 | 3,326 | 2 | 4 | 165 | 171 | 3,497 |
| Profit from continued operations before taxes | 257 | 113 | 71 | 441 | 2 | 5 | 82 | 89 | 530 |
| Provision for taxes on profit from continued operations | 94 | 41 | 25 | 160 | 1 | 2 | 32 | 35 | 195 |
| Net profit attributed to shareholders of the Bank | 163 | 72 | 46 | 281 | 1 | 3 | 50 | 54 | 335 |

* Reclassified; for additional information, see explanation above.

## Note 28 Supervisory Activity Segments (continued)

NIS millions

### Information regarding supervisory activity segments (continued)

| | For the year ended December 31, 2016* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Household Segment | | | | Private Banking Segment | | | | Total |
| | Housing loans | Credit cards | Other | Total | Housing loans | Credit cards | Other | Total | |
| Average balance of assets[1] | 59,791 | 6,022 | 37,689 | 103,502 | 942 | - | 807 | 1,749 | 105,251 |
| Average balance of gross credit to the public[1] | 60,187 | 6,022 | 38,030 | 104,239 | 1,010 | - | 830 | 1,840 | 106,079 |
| Balance of gross credit to the public at the end of the reported period | 60,843 | 5,422 | 38,778 | 105,043 | 899 | - | 551 | 1,450 | 106,493 |
| Balance of impaired debts | - | - | 699 | 699 | - | - | 1 | 1 | 700 |
| Balance of debts in arrears of more than 90 days | 593 | - | 96 | 689 | - | - | - | - | 689 |
| Average balance of liabilities[1] | 5 | - | 122,312 | 122,317 | - | - | 31,829 | 31,829 | 154,146 |
| Of which: average balance of deposits from the public[1] | - | - | 122,303 | 122,303 | - | - | 31,822 | 31,822 | 154,125 |
| Balance of deposits from the public at the end of the reported period | - | - | 122,601 | 122,601 | - | - | 31,982 | 31,982 | 154,583 |
| Average balance of risk-adjusted assets[1][2] | 36,217 | 4,067 | 41,641 | 81,925 | 617 | - | 1,728 | 2,345 | 84,270 |
| Balance of risk-adjusted assets at the end of the reported period[2] | 37,786 | 4,067 | 41,817 | 83,670 | 570 | - | 1,359 | 1,929 | 85,599 |
| Average balance of assets under management[1][3] | - | - | 75,050 | 75,050 | - | - | 46,903 | 46,903 | 121,953 |
| | | | | | | | | | |
| Segmentation of net interest income: | | | | | | | | | |
| Spread from credit granting activity | 382 | 27 | 2,108 | 2,517 | 5 | - | 18 | 23 | 2,540 |
| Spread from deposit taking activity | - | - | 236 | 236 | - | - | 81 | 81 | 317 |
| Other | 1 | - | 13 | 14 | (1) | - | 1 | - | 14 |
| Total net interest income | 383 | 27 | 2,357 | 2,767 | 4 | - | 100 | 104 | 2,871 |

* Reclassified; for additional information, see explanation above.
(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.

## Note 28 Supervisory Activity Segments (continued)

NIS millions

### Information regarding supervisory activity segments (continued)

| | For the year ended December 31, 2016* | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Small Business and Microbusiness Segment | | | Mid-sized Business Segment | | | Large Business Segment | | | Total |
| | Construction and real estate | Other | Total | Construction and real estate | Other | Total | Construction and real estate | Other | Total | |
| Interest income from externals | 629 | 1,483 | 2,112 | 339 | 446 | 785 | 352 | 1,225 | 1,577 | 4,474 |
| Interest expenses for externals | - | (26) | (26) | - | (24) | (24) | - | (87) | (87) | (137) |
| Net interest income: | | | | | | | | | | |
| From externals | 629 | 1,457 | 2,086 | 339 | 422 | 761 | 352 | 1,138 | 1,490 | 4,337 |
| Inter-segmental | (100) | (126) | (226) | (68) | (69) | (137) | (88) | (383) | (471) | (834) |
| Total net interest income | 529 | 1,331 | 1,860 | 271 | 353 | 624 | 264 | 755 | 1,019 | 3,503 |
| Non-interest income: | | | | | | | | | | |
| Non-interest financing income | - | 10 | 10 | - | 18 | 18 | - | 161 | 161 | 189 |
| Fees and other income | 176 | 608 | 784 | 180 | 103 | 283 | 185 | 198 | 383 | 1,450 |
| Total non-interest income | 176 | 618 | 794 | 180 | 121 | 301 | 185 | 359 | 544 | 1,639 |
| Of which: income from credit cards | - | 49 | 49 | - | 4 | 4 | - | 2 | 2 | 55 |
| Total income | 705 | 1,949 | 2,654 | 451 | 474 | 925 | 449 | 1,114 | 1,563 | 5,142 |
| Provision (income) for credit losses | (35) | 247 | 212 | (193) | 101 | (92) | (240) | (177) | (417) | (297) |
| Operating and other expenses | | | | | | | | | | |
| For externals | 343 | 1,008 | 1,351 | 150 | 178 | 328 | 93 | 180 | 273 | 1,952 |
| Inter-segmental | 55 | 240 | 295 | 9 | (15) | (6) | 9 | 52 | 61 | 350 |
| Total operating and other expenses | 398 | 1,248 | 1,646 | 159 | 163 | 322 | 102 | 232 | 334 | 2,302 |
| Profit from continued operations before taxes | 342 | 454 | 796 | 485 | 210 | 695 | 587 | 1,059 | 1,646 | 3,137 |
| Provision for taxes on profit from continued operations | 128 | 169 | 297 | 182 | 80 | 262 | 221 | 402 | 623 | 1,182 |
| Net profit attributed to shareholders of the Bank | 214 | 285 | 499 | 303 | 130 | 433 | 366 | 657 | 1,023 | 1,955 |

* Reclassified; for additional information, see explanation above.

## Note 28 Supervisory Activity Segments (continued)

NIS millions

### Information regarding supervisory activity segments (continued)

| | For the year ended December 31, 2016* | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Small Business and Microbusiness Segment | | | Mid-sized Business Segment | | | Large Business Segment | | | Total |
| | Construction and real estate | Other | Total | Construction and real estate | Other | Total | Construction and real estate | Other | Total | |
| Average balance of assets[1] | 17,976 | 39,121 | 57,097 | 11,185 | 16,272 | 27,457 | 11,530 | 41,944 | 53,474 | 138,028 |
| Average balance of gross credit to the public[1] | 17,664 | 38,830 | 56,494 | 10,779 | 16,335 | 27,114 | 12,663 | 42,446 | 55,109 | 138,717 |
| Balance of gross credit to the public at the end of the reported period | 17,239 | 39,002 | 56,241 | 11,269 | 17,240 | 28,509 | 12,515 | 39,218 | 51,733 | 136,483 |
| Balance of impaired debts | 355 | 565 | 920 | 262 | 214 | 476 | 178 | 1,545 | 1,723 | 3,119 |
| Balance of debts in arrears of more than 90 days | 65 | 125 | 190 | - | 1 | 1 | - | 4 | 4 | 195 |
| Average balance of liabilities[1] | 6,617 | 34,428 | 41,045 | 3,863 | 14,190 | 18,053 | 4,507 | 31,747 | 36,254 | 95,352 |
| Of which: average balance of deposits from the public[1] | 6,566 | 34,399 | 40,965 | 3,811 | 14,180 | 17,991 | 4,466 | 31,306 | 35,772 | 94,728 |
| Balance of deposits from the public at the end of the reported period | 7,451 | 41,740 | 49,191 | 4,495 | 14,499 | 18,994 | 4,351 | 33,833 | 38,184 | 106,369 |
| Average balance of risk-adjusted assets[1][2] | 20,335 | 38,505 | 58,840 | 17,844 | 20,480 | 38,324 | 25,583 | 49,653 | 75,236 | 172,400 |
| Balance of risk-adjusted assets at the end of the reported period[2] | 21,726 | 39,018 | 60,744 | 16,762 | 20,326 | 37,088 | 19,748 | 40,233 | 59,981 | 157,813 |
| Average balance of assets under management[1][3] | - | 16,666 | 16,666 | - | 14,122 | 14,122 | - | 73,369 | 73,369 | 104,157 |
| | | | | | | | | | | |
| Segmentation of net interest income: | | | | | | | | | | |
| Spread from credit granting activity | 529 | 1,276 | 1,805 | 271 | 322 | 593 | 264 | 710 | 974 | 3,372 |
| Spread from deposit taking activity | - | 52 | 52 | - | 30 | 30 | - | 39 | 39 | 121 |
| Other | - | 3 | 3 | - | 1 | 1 | - | 6 | 6 | 10 |
| Total net interest income | 529 | 1,331 | 1,860 | 271 | 353 | 624 | 264 | 755 | 1,019 | 3,503 |

* Reclassified; for additional information, see explanation above.
(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.

## Note 28A Segments of Activity Based on Management Approach

The Bank Group operates in Israel and abroad, and provides a wide range of banking and financial services to its customers. The division into segments of activity according to the management approach is based on types of products and services or on types of customers. The chief operating decision makers of the Bank (the Board of Management of the Bank and the Board of Directors) use this division to make decisions and to analyze the Group's business results. The activity of the Isracard Group is classified as a "discontinued operation," beginning with the financial statements for the second quarter of 2018. Accordingly, comparative figures have been restated such that balance sheet balances of assets and liabilities and results attributed to the discontinued operation, which, prior to this classification, were presented in a separate segment of activity – the "Isracard Group," are presented separately from the continued operations, within the "Adjustments" segment. For additional details, see Note 1G.

### Assignment of customers to segments based on management approach

Customers' assignments to the segments of activity are based on the actual assignment of customers to the organizational units that serve them, which is performed in accordance with the criteria described below. However, it is clarified that customer assignments occasionally take additional criteria into consideration, as in the case of a private customer or a company with a profile or potential for future activity that justifies an assignment to the Private Customer Segment or to the Corporate Segment, as relevant. In assigning a business client to an organizational unit, the client's association with a group of companies is also taken into consideration.

The following reportable segments have been identified by the Bank, in accordance with the management approach:

**Retail activity**

**Private Customer Segment –** Customers included in this segment are private customers to whom the Bank provides a range of banking services and financial products, including investment advising services.

**Small Business Segment –** Provides a range of banking services to business customers with a total indebtedness (to the Bank or to other lenders) of less than NIS 10 million, or a total indebtedness (to the Bank or to other lenders) of more than NIS 10 million but an indebtedness to the Bank of less than NIS 6 million and annual revenue of less than NIS 30 million.

**Housing Loan Segment –** This segment is responsible for providing housing credit services to retail customers.

**Business activity**

**Commercial Segment –** This segment includes business customers with total indebtedness (to the Bank or to other lenders) of more than NIS 10 million, up to a total of NIS 100 million; or annual revenue of over NIS 30 million, up to NIS 1 billion. Customers in the construction and real-estate sector included in this segment are customers with a total indebtedness higher than NIS 10 million, up to a total of NIS 350 million; or a total credit balance of NIS 150 million or less.

**Corporate Segment –** Provides financial services to large corporations in Israel and overseas with total indebtedness of NIS 250 million or more, or annual revenue of over NIS 1 billion. Customers in the construction and real-estate sector included in this segment are customers with a total indebtedness of NIS 550 million or more, or a total credit balance of NIS 250 million or more.

## Note 28A Segments of Activity Based on Management Approach (continued)

Groups with a total indebtedness of NIS 100 million to NIS 250 million, and groups in the construction and real-estate sector with a total indebtedness of NIS 350 million to NIS 550 million, or total credit balances of NIS 150 million to NIS 250 million, are assigned either to the Corporate Segment or to the Commercial Segment, depending on various parameters examined individually for each group.

**International Activity Segment –** Includes the activity of the subsidiaries overseas and of the Bank's overseas branches, including Bank Hapoalim (Switzerland) Ltd., the US branches, and Bank Pozitif.

**Financial Management Segment –** Responsible for the management of the Bank's assets and liabilities, management of the Nostro activity of the Bank, activity of the dealing rooms (foreign currency and securities), overall business with management companies of provident funds (excluding management companies of provident funds managed within insurance companies) and mutual funds, contact and administration of activity with financial entities (in Israel and overseas), and provision of operational services to financial-asset managers and operational services in securities to all customers of the Bank.

The segment is responsible for the management of market and liquidity risks, performed through proactive management of the Nostro portfolio and through the use of financial instruments, such as issuance of various securities, deposits, interest and foreign-currency derivatives, and more.

**Adjustments –** Includes adjustments between total items attributed to the segments and total items in the consolidated financial statements, and other activities of the Bank Group, each of which does not form a reportable segment, including the results of operations of Poalim Sahar Ltd., Poalim Capital Markets Investment House Ltd., and Peilim Investment Portfolio Management Ltd. In addition, legal and other provisions and expenses in connection with the investigation of the Bank Group's business with American customers are included in this segment. The segment also includes the activity of the Isracard Group, which is classified as a discontinued operation, as detailed in Note 1G.

### Rules for the distribution of results of operations among the segments

The following are the main rules applied in dividing the results of operations among the different segments:

**Net interest income –** Includes, among other things: (1) the spread between the interest rate received from the segment's customers and the wholesale interest rate which the segment is charged in respect of the resource used to provide the loan to the customer; (2) the spread between the wholesale interest rate at which the segment is credited in respect of resources which it makes available to the Bank, and the interest rate paid to the segment's customers in respect of such resources.

**Provision for credit losses –** A provision for credit losses is charged to the segment to which the borrower against whose debt the allowance is recorded belongs.

**Non-interest financing income –** Attributed to the segment to which the customer belongs. Income recorded in the Financial Management Segment includes income from realization and adjustment to fair value of bonds, profits from investment in shares, results of activity in derivative instruments, net profit from exchange-rate differences, and financing expenses arising from hedging of investments overseas. Income recorded in the other segments includes profits from the dealing room.

**Fees and other income –** Attributed to the segment to which the customer belongs.

## Note 28A Segments of Activity Based on Management Approach (continued)

**Operating and other expenses –** Expenses are attributed to each segment of activity according to predetermined rules and standard prices, either as an expense identified directly with the activity of the segment, or according to charging formulas. Attribution rules are based on the volumes of activity relevant to the types of costs in each segment.

**Debiting for inter-segmental services –** The assigned segment of a customer receiving services from another segment is charged with an inter-segmental expense, based on standard prices for services provided by other segments to its customers. The costs of the segment providing the service are reduced accordingly, and the costs are concurrently charged to the segment to which the customer belongs. The charge is determined by the Bank based, among other factors, on market prices for the service, internal cost estimates, and participation in income derived directly or indirectly from the said service.

**Taxes on income –** The provision for tax on the results of operation of each segment was calculated according to the annual effective tax rate, taking into consideration the tax effects applicable to certain segments, as follows: (1) effects of translation differences in respect of consolidated companies overseas – attributed to the Financial Management Segment; (2) expenses not recognized for tax purposes are attributed to the relevant segment; when no specific attribution of the expenses is possible, the expenses are attributed to Others and Adjustments; (3) effect of changes in the tax rate – attributed to the Others and Adjustments Segment; (4) tax expenses of subsidiaries, including tax supplementation performed at the Bank – attributed to the segment to which the company is assigned.

### Reclassification of comparative figures

Comparative figures for 2017 and 2016 were restated in order to present the Isracard Group as a discontinued operation, separate from the continued operations, under the "Adjustments" segment. For additional details, see Note 1G.

Expenses in respect of insurance for Sale Law guarantees were classified as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item.

## Note 28A Segments of Activity Based on Management Approach (continued)

NIS millions

### A. Information regarding activity segments

| | For the year ended December 31, 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Retail activity | | | Business activity | | | | | |
| | Private customers[1] | Small businesses[2] | Housing loans | Commercial | Corporate | International activity | Financial management[3] | Adjustments[4] | Total |
| Net interest income: | | | | | | | | | |
| From externals | 1,896 | 1,568 | 2,318 | 1,069 | 1,856 | 625 | (443) | 17 | 8,906 |
| Inter-segmental | 860 | 53 | (1,622) | (63) | (486) | (154) | 1,410 | 2 | - |
| Non-interest financing income | 11 | 3 | - | 6 | 113 | 89 | 1,159 | 64 | 1,445 |
| Total net financing profit | 2,767 | 1,624 | 696 | 1,012 | 1,483 | 560 | 2,126 | 83 | 10,351 |
| Fees and other income | 1,520 | 584 | 61 | 388 | 445 | 136 | 153 | 136 | 3,423 |
| Total income | 4,287 | 2,208 | 757 | 1,400 | 1,928 | 696 | 2,279 | 219 | 13,774 |
| Provision (income) for credit losses | 455 | 392 | 37 | (37) | (333) | 101 | (2) | - | 613 |
| Operating and other expenses: | | | | | | | | | |
| From externals | 3,378 | 946 | 378 | 478 | 648 | 1,744 | 709 | 679 | 8,960 |
| Inter-segmental | 247 | 171 | (132) | 28 | (33) | 13 | (238) | (56) | - |
| Profit (loss) from continued operations before taxes | 207 | 699 | 474 | 931 | 1,646 | (1,162) | 1,810 | (404) | 4,201 |
| Provision for taxes (tax benefit) on profit (loss) from continued operations | 78 | 259 | 173 | 345 | 611 | 31 | 564 | (52) | 2,009 |
| Profit (loss) from continued operations after taxes | 129 | 440 | 301 | 586 | 1,035 | (1,193) | 1,246 | (352) | 2,192 |
| The Bank's share in profits of equity-basis investees, after taxes | - | - | - | - | - | - | 4 | - | 4 |
| Net profit (loss) from continued operations | 129 | 440 | 301 | 586 | 1,035 | (1,193) | 1,250 | (352) | 2,196 |
| Net profit from a discontinued operation | - | - | - | - | - | - | - | 364 | 364 |
| Net profit (loss): | | | | | | | | | |
| Before attribution to non-controlling interests | 129 | 440 | 301 | 586 | 1,035 | (1,193) | 1,250 | 12 | 2,560 |
| Attributed to non-controlling interests | - | - | - | - | - | 20 | 15 | - | 35 |
| Attributed to shareholders of the Bank | 129 | 440 | 301 | 586 | 1,035 | (1,173) | 1,265 | 12 | 2,595 |
| Net credit to the public at the end of the reported period | 44,099 | 32,561 | 81,454 | 37,489 | 71,937 | 14,136 | 831 | 14,366 | 296,873 |
| Deposits from the public at the end of the reported period | 187,136 | 42,415 | - | 25,259 | 44,150 | 19,017 | 34,283 | 82 | 352,342 |

(1) The segment also includes the balances attributed to credit-card activity which are part of continued operations, including a balance of credit to the public in the amount of NIS 5,035 million.
(2) The segment also includes the balances attributed to credit-card activity which are part of continued operations, including a balance of credit to the public in the amount of NIS 1,527 million.
(3) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented within information regarding supervisory activity segments as a separate segment.
(4) This section also includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers. The data also include balances attributed to a discontinued operation. For details, see Note 1G.

## Note 28A Segments of Activity Based on Management Approach (continued)

NIS millions

### A. Information regarding activity segments (continued)

| | For the year ended December 31, 2017* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Retail activity | | | Business activity | | | | | |
| | Private customers[1] | Small businesses[2] | Housing loans | Commercial | Corporate | International activity | Financial management[3] | Adjustments[4] | Total |
| Net interest income: | | | | | | | | | |
| From externals | 1,964 | 1,551 | 1,768 | 1,038 | 1,971 | 625 | (506) | 13 | 8,424 |
| Inter-segmental | 638 | (12) | (1,219) | (110) | (622) | (119) | 1,443 | 1 | - |
| Non-interest financing income | 13 | 1 | - | 7 | 67 | 58 | 444 | 62 | 652 |
| Total net financing profit | 2,615 | 1,540 | 549 | 935 | 1,416 | 564 | 1,381 | 76 | 9,076 |
| Fees and other income | 1,500 | 573 | 65 | 381 | 436 | 234 | 146 | 166 | 3,501 |
| Total income | 4,115 | 2,113 | 614 | 1,316 | 1,852 | 798 | 1,527 | 242 | 12,577 |
| Provision (income) for credit losses | 466 | 528 | (3) | (3) | (824) | 37 | 1 | - | 202 |
| Operating and other expenses: | | | | | | | | | |
| From externals | 3,323 | 918 | 360 | 460 | 653 | 1,114 | 717 | 576 | 8,121 |
| Inter-segmental | 224 | 169 | (119) | 43 | (28) | 24 | (222) | (91) | - |
| Profit (loss) from continued operations before taxes | 102 | 498 | 376 | 816 | 2,051 | (377) | 1,031 | (243) | 4,254 |
| Provision for taxes on profit from continued operations | 40 | 192 | 145 | 315 | 797 | 21 | 372 | 77 | 1,959 |
| Profit (loss) from continued operations after taxes | 62 | 306 | 231 | 501 | 1,254 | (398) | 659 | (320) | 2,295 |
| The Bank's share in profits of equity-basis investees, after taxes | - | - | - | - | - | - | 17 | - | 17 |
| Net profit (loss) from continued operations | 62 | 306 | 231 | 501 | 1,254 | (398) | 676 | (320) | 2,312 |
| Net profit from a discontinued operation | - | - | - | - | - | - | - | 314 | 314 |
| Net profit (loss): | | | | | | | | | |
| Before attribution to non-controlling interests | 62 | 306 | 231 | 501 | 1,254 | (398) | 676 | (6) | 2,626 |
| Attributed to non-controlling interests | - | - | - | - | - | 19 | 16 | (1) | 34 |
| Attributed to shareholders of the Bank | 62 | 306 | 231 | 501 | 1,254 | (379) | 692 | (7) | 2,660 |
| Net credit to the public at the end of the reported period | 45,857 | 32,393 | 74,124 | 33,859 | 65,494 | 12,902 | 1,224 | 12,810 | 278,663 |
| Deposits from the public at the end of the reported period | 171,518 | 38,227 | - | 24,653 | 42,207 | 20,858 | 49,881 | 7 | 347,351 |

* Reclassified; for additional information, see explanation above.

(1) The segment also includes the balances attributed to credit-card activity which are part of continued operations, including a balance of credit to the public in the amount of NIS 5,578 million.

(2) The segment also includes the balances attributed to credit-card activity which are part of continued operations, including a balance of credit to the public in the amount of NIS 1,176 million.

(3) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented within information regarding supervisory activity segments as a separate segment.

(4) This section also includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers. The data also include balances attributed to a discontinued operation. For details, see Note 1G.

## Note 28A Segments of Activity Based on Management Approach (continued)

NIS millions

### A. Information regarding activity segments (continued)

| | For the year ended December 31, 2016* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Retail activity | | | Business activity | | | | | |
| | Private customers[1] | Small businesses[2] | Housing loans | Commercial | Corporate | International activity | Financial management[3] | Adjustments[4] | Total |
| Net interest income: | | | | | | | | | |
| From externals | 1,889 | 1,490 | 1,452 | 965 | 1,980 | 603 | (429) | 8 | 7,958 |
| Inter-segmental | 511 | (45) | (1,032) | (133) | (532) | (47) | 1,277 | 1 | - |
| Non-interest financing income | 24 | - | - | 9 | 199 | 107 | 791 | 33 | 1,163 |
| Total net financing profit | 2,424 | 1,445 | 420 | 841 | 1,647 | 663 | 1,639 | 42 | 9,121 |
| Fees and other income | 1,489 | 587 | 64 | 369 | 544 | 354 | 180 | 167 | 3,754 |
| Total income | 3,913 | 2,032 | 484 | 1,210 | 2,191 | 1,017 | 1,819 | 209 | 12,875 |
| Provision (income) for credit losses | 285 | 443 | - | 124 | (781) | 113 | (5) | - | 179 |
| Operating and other expenses: | | | | | | | | | |
| From externals | 3,455 | 975 | 226 | 447 | 584 | 1,264 | 676 | 515 | 8,142 |
| Inter-segmental | (80) | 214 | - | 31 | 37 | 23 | (139) | (86) | - |
| Profit (loss) from continued operations before taxes | 253 | 400 | 258 | 608 | 2,351 | (383) | 1,287 | (220) | 4,554 |
| Provision for taxes on profit from continued operations | 95 | 149 | 95 | 227 | 881 | 16 | 467 | 299 | 2,229 |
| Profit (loss) from continued operations after taxes | 158 | 251 | 163 | 381 | 1,470 | (399) | 820 | (519) | 2,325 |
| The Bank's share in profits of equity-basis investees, after taxes | - | - | - | - | - | - | 7 | 5 | 12 |
| Net profit (loss) from continued operations | 158 | 251 | 163 | 381 | 1,470 | (399) | 827 | (514) | 2,337 |
| Net profit from a discontinued operation | - | - | - | - | - | - | - | 274 | 274 |
| Net profit (loss): | | | | | | | | | |
| Before attribution to non-controlling interests | 158 | 251 | 163 | 381 | 1,470 | (399) | 827 | (240) | 2,611 |
| Attributed to non-controlling interests | - | - | - | - | - | (1) | 19 | (1) | 17 |
| Attributed to shareholders of the Bank | 158 | 251 | 163 | 381 | 1,470 | (400) | 846 | (241) | 2,628 |
| Net credit to the public at the end of the reported period | 44,140 | 30,158 | 68,822 | 32,173 | 68,008 | 15,272 | 1,305 | 12,079 | 271,957 |
| Deposits from the public at the end of the reported period | 169,843 | 37,431 | - | 23,010 | 38,968 | 30,975 | 38,267 | 8 | 338,502 |

* Reclassified; for additional information, see explanation above.

(1) The segment also includes the balances attributed to credit-card activity which are part of continued operations, including a balance of credit to the public in the amount of NIS 5,420 million.

(2) The segment also includes the balances attributed to credit-card activity which are part of continued operations, including a balance of credit to the public in the amount of NIS 1,094 million.

(3) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented within information regarding supervisory activity segments as a separate segment.

(4) This section also includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers. The data also include balances attributed to a discontinued operation. For details, see Note 1G.

## Note 28A Segments of Activity Based on Management Approach (continued)

NIS millions

### B. Information regarding geographical segments*(1)

| | For the year ended December 31 | | | For the year ended December 31 | | | December 31 | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | **2018** | 2017 | 2016 | **2018** | 2017 |
| | Income(2) | | | Net profit (loss) attributed to shareholders of the Bank | | | Total assets | |
| Israel | **13,032** | 11,785 | 11,843 | **3,373** | 2,739 | 2,763 | **411,414** | 398,685 |
| North America | **480** | 507 | 502 | **65** | 49 | 7 | **27,373** | 31,081 |
| Europe | **259** | 284 | 512 | **(1,209)** | (429) | (403) | **6,962** | 11,159 |
| Other | **3** | 1 | 18 | **2** | (13) | (13) | **67** | 70 |
| Total outside Israel | **742** | 792 | 1,032 | **(1,142)** | (393) | (409) | **34,402** | 42,310 |
| Total consolidated | **13,774** | 12,577 | 12,875 | **2,231** | 2,346 | 2,354 | **445,816** | 440,995 |

* The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations, including restatement of comparative figures. For details, see Note 1G.

(1) The division into geographical areas was performed according to the location of the assets.

(2) Income: net interest income and non-interest income.

## Note 28A Segments of Activity Based on Management Approach (continued)

### C. Pro-forma data regarding the effect of expenses pertaining to the business of the Bank Group in Israel with American customers on the segments of activity

The expenses allocated at Bank Hapoalim Switzerland pertaining to the investigation of the Bank Group's business with American customers, in connection with the customers of Bank Hapoalim Switzerland, were allocated, within the disclosure of segments of activity based on the management approach, to the International Activity Segment.

The expenses allocated in Israel pertaining to the Bank Group's business with American customers include a provision in respect of customers with certain American indications at the branches of the Bank in Israel, as well as a provision in respect of exposure to amounts for other United States authorities (other than the DOJ), at a rate of 30% of the amount of the provision in respect of the DOJ (in respect of customers in Israel and overseas). These expenses were allocated, within the disclosure of segments of activity based on the management approach, to the Adjustments Segment.

If the expenses allocated in Israel, in the year ended December 31, 2018, and in the year ended December 31, 2017, were allocated equally to the Retail Banking Segment and to the International Activity Segment (rather than to the Adjustments Segment), the net profit of retail banking would total approximately NIS 731 million and approximately NIS 425 million, respectively; the loss of the International Activity Segment for the period would total approximately NIS 1,312 million and approximately NIS 552 million, respectively; and net profit in the amount of approximately NIS 290 million and approximately NIS 340 million, respectively, would be recorded in the Adjustments Segment.

# Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses

NIS millions

## A. Debts* and off-balance sheet credit instruments

### Allowance for credit losses

1. Change in allowance for credit losses*,**

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | Banks and governments | Total |
| | Commercial | Housing | Other private | Total | | |
| Allowance for credit losses at beginning of year | **2,986** | **333** | **940** | **4,259** | **7** | **4,266** |
| Provision for credit losses[1] | **114** | **40** | **457** | **611** | **2** | **613** |
| Charge-offs | **(801)** | **(8)** | **(821)** | **(1,630)** | **-** | **(1,630)** |
| Recoveries of debts charged off in previous years | **754** | **3** | **325** | **1,082** | **-** | **1,082** |
| Net charge-offs | **(47)** | **(5)** | **(496)** | **(548)** | **-** | **(548)** |
| Adjustments from translation of financial statements | **-** | **-** | **3** | **3** | **-** | **3** |
| Allowance for credit losses at year end[2] | **3,053** | **368** | **904** | **4,325** | **9** | **4,334** |
| (1) Of which: in respect of off-balance sheet credit instruments | **(27)** | **-** | **(13)** | **(40)** | **-** | **(40)** |
| (2) Of which: in respect of off-balance sheet credit instruments | **532** | **-** | **35** | **567** | **1** | **568** |

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| Allowance for credit losses at beginning of year | 3,460 | 366 | 794 | 4,620 | 7 | 4,627 |
| Provision (income) for credit losses[1] | (333) | (14) | 549 | 202 | - | 202 |
| Charge-offs | (1,178) | (25) | (718) | (1,921) | - | (1,921) |
| Recoveries of debts charged off in previous years | 1,037 | 6 | 317 | 1,360 | - | 1,360 |
| Net charge-offs | (141) | (19) | (401) | (561) | - | (561) |
| Adjustments from translation of financial statements | - | - | (2) | (2) | - | (2) |
| Allowance for credit losses at year end[2] | 2,986 | 333 | 940 | 4,259 | 7 | 4,266 |
| (1) Of which: in respect of off-balance sheet credit instruments | (62) | - | 12 | (50) | 1 | (49) |
| (2) Of which: in respect of off-balance sheet credit instruments | 559 | - | 48 | 607 | 1 | 608 |

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

### A. Debts* and off-balance sheet credit instruments (continued)

**Allowance for credit losses** (continued)

1. Change in allowance for credit losses (continued)*,**

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | Banks and governments | Total |
| | Commercial | Housing | Other private | Total | | |
| Allowance for credit losses at beginning of year | 3,812 | 392 | 730 | 4,934 | 3 | 4,937 |
| Provision (income) for credit losses[1] | (224) | (5) | 406 | 177 | 4 | 181 |
| Charge-offs | (902) | (21) | (652) | (1,575) | - | (1,575) |
| Recoveries of debts charged off in previous years | 774 | - | 311 | 1,085 | - | 1,085 |
| Net charge-offs | (128) | (21) | (341) | (490) | - | (490) |
| Adjustments from translation of financial statements | - | - | (1) | (1) | - | (1) |
| Allowance for credit losses at year end[2] | 3,460 | 366 | 794 | 4,620 | 7 | 4,627 |
| (1) Of which: in respect of off-balance sheet credit instruments | 11 | - | (3) | 8 | - | 8 |
| (2) Of which: in respect of off-balance sheet credit instruments | 621 | - | 36 | 657 | - | 657 |

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

### A. Debts* and off-balance sheet credit instruments (continued)

**Allowance for credit losses** (continued)

2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts* and regarding the underlying debts*[3]

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | Banks and governments | Total |
| | Commercial** | Housing | Other private | Total | | |
| Recorded debt balance of debts*: | | | | | | |
| Examined on an individual basis | **134,459** | **-** | **962** | **135,421** | **16,526** | **151,947** |
| Examined on a collective basis[1] | **38,258** | **70,410** | **42,176** | **150,844** | **-** | **150,844** |
| Total debts* | **172,717** | **70,410** | **43,138** | **286,265** | **16,526** | **302,791** |
| (1) Of which: allowance for which was calculated according to the extent of arrears | **11,044** | **70,217** | **-** | **81,261** | **-** | **81,261** |
| Allowance for credit losses in respect of debts*: | | | | | | |
| Examined on an individual basis | **2,040** | **-** | **159** | **2,199** | **8** | **2,207** |
| Examined on a collective basis[2] | **481** | **368** | **710** | **1,559** | **-** | **1,559** |
| Total allowance for credit losses | **2,521** | **368** | **869** | **3,758** | **8** | **3,766** |
| (2) Of which: allowance for which was calculated according to the extent of arrears*** | **56** | **368** | **-** | **424** | **-** | **424** |

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | Banks and governments | Total |
| | Commercial** | Housing | Other private | Total | | |
| Recorded debt balance of debts*: | | | | | | |
| Examined on an individual basis | 121,369 | - | 1,449 | 122,818 | 26,382 | 149,200 |
| Examined on a collective basis[1] | 37,331 | 65,176 | 44,180 | 146,687 | - | 146,687 |
| Total debts* | 158,700 | 65,176 | 45,629 | 269,505 | 26,382 | 295,887 |
| (1) Of which: allowance for which was calculated according to the extent of arrears | 9,345 | 64,940 | - | 74,285 | - | 74,285 |
| Allowance for credit losses in respect of debts*: | | | | | | |
| Examined on an individual basis | 1,935 | - | 227 | 2,162 | 6 | 2,168 |
| Examined on a collective basis[2] | 492 | 333 | 665 | 1,490 | - | 1,490 |
| Total allowance for credit losses | 2,427 | 333 | 892 | 3,652 | 6 | 3,658 |
| (2) Of which: allowance for which was calculated according to the extent of arrears*** | 64 | 333 | - | 397 | - | 397 |

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 11,044 million, of commercial borrowers, or granted to purchasing groups in the process of construction (December 31, 2017: NIS 9,345 million).

*** Includes the allowance beyond the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 284 million (December 31, 2017: NIS 259 million).

(3) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

### B. Debts*

#### 1. Credit quality and arrears[6]

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Non-problematic | Problematic[1] | | Total | Unimpaired debts** – additional information | |
| | | Unimpaired | Impaired[2] | | In arrears of 90 days or more[3] | In arrears of 30 to 89 days[4] |
| **Borrower activity in Israel** | | | | | | |
| **Public – commercial** | | | | | | |
| Construction and real estate – construction | **25,351** | **372** | **259** | **25,982** | **25** | **53** |
| Construction and real estate – real-estate activities | **19,068** | **277** | **284** | **19,629** | **9** | **25** |
| Financial services | **15,518** | **60** | **28** | **15,606** | **2** | **2** |
| Commercial – other | **87,023** | **2,051** | **1,085** | **90,159** | **133** | **200** |
| Total commercial | **146,960** | **2,760** | **1,656** | **151,376** | **169** | **280** |
| Private individuals – housing loans[5] | **69,429** | **526** | **-** | **69,955** | **526** | **531** |
| Private individuals – other | **42,097** | **178** | **688** | **42,963** | **107** | **176** |
| Total public – activity in Israel | **258,486** | **3,464** | **2,344** | **264,294** | **802** | **987** |
| Banks in Israel | **111** | **-** | **-** | **111** | **-** | **-** |
| Israeli government | **1,092** | **-** | **-** | **1,092** | **-** | **-** |
| Total activity in Israel | **259,689** | **3,464** | **2,344** | **265,497** | **802** | **987** |

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** For this purpose, "unimpaired debts" include non-problematic debts.

(1) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 29B.2.c below.

(3) Classified as unimpaired problematic debts accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days, in the amount of approximately NIS 227 million (December 31, 2017: NIS 26 million), were classified as unimpaired problematic debts.

(5) Includes a balance of housing loans arranged in a settlement with the borrower, in the amount of approximately NIS 66 million (December 31, 2017: NIS 66 million).

(6) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

### B. Debts* (continued)

#### 1. Credit quality and arrears[5] (continued)

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Non-problematic | Problematic[1] | | Total | Unimpaired debts** – additional information | |
| | | Unimpaired | Impaired[2] | | In arrears of 90 days or more[3] | In arrears of 30 to 89 days[4] |
| **Borrower activity overseas** | | | | | | |
| **Public – commercial** | | | | | | |
| Construction and real estate | 7,151 | 133 | 87 | 7,371 | 3 | 54 |
| Commercial – other | 13,422 | 276 | 272 | 13,970 | - | 84 |
| Total commercial | 20,573 | 409 | 359 | 21,341 | 3 | 138 |
| Private individuals | 609 | 3 | 18 | 630 | 3 | 13 |
| Total public – activity overseas | 21,182 | 412 | 377 | 21,971 | 6 | 151 |
| Banks overseas | 13,980 | - | - | 13,980 | - | - |
| Governments overseas | 1,343 | - | - | 1,343 | - | - |
| Total activity overseas | 36,505 | 412 | 377 | 37,294 | 6 | 151 |
| Total public | 279,668 | 3,876 | 2,721 | 286,265 | 808 | 1,138 |
| Total banks | 14,091 | - | - | 14,091 | - | - |
| Total governments | 2,435 | - | - | 2,435 | - | - |
| Total | 296,194 | 3,876 | 2,721 | 302,791 | 808 | 1,138 |

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** For this purpose, "unimpaired debts" include non-problematic debts.

(1) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 29B.2.c below.

(3) Classified as unimpaired problematic debts accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days, in the amount of approximately NIS 227 million (December 31, 2017: NIS 26 million), were classified as unimpaired problematic debts.

(5) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

### B. Debts** (continued)

#### 1. Credit quality and arrears[6] (continued)

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Non-problematic | Problematic[1] | | Total | Unimpaired debts*** – additional information | |
| | | Unimpaired | Impaired[2] | | In arrears of 90 days or more[3] | In arrears of 30 to 89 days[4] |
| **Borrower activity in Israel** | | | | | | |
| **Public – commercial** | | | | | | |
| Construction and real estate – construction | 22,282 | 246 | 338 | 22,866 | 49 | 59 |
| Construction and real estate – real-estate activities | 18,484 | 147 | 273 | 18,904 | 21 | 18 |
| Financial services | 14,131 | 56 | 30 | 14,217 | 2 | 11 |
| Commercial – other | 81,480 | 2,450 | 1,047 | 84,977 | 146 | 223 |
| Total commercial | 136,377 | 2,899 | 1,688 | 140,964 | 218 | 311 |
| Private individuals – housing loans[5] | 64,108 | 595 | - | 64,703 | 592 | *419 |
| Private individuals – other | 44,347 | 110 | 713 | 45,170 | 97 | 222 |
| Total public – activity in Israel | 244,832 | 3,604 | 2,401 | 250,837 | 907 | *952 |
| Banks in Israel | 172 | - | - | 172 | - | - |
| Israeli government | 998 | - | - | 998 | - | - |
| Total activity in Israel | 246,002 | 3,604 | 2,401 | 252,007 | 907 | *952 |

* Restated.

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

*** For this purpose, "unimpaired debts" include non-problematic debts.

(1) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 29B.2.c below.

(3) Classified as unimpaired problematic debts accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days, in the amount of approximately NIS 227 million (December 31, 2017: NIS 26 million), were classified as unimpaired problematic debts.

(5) Includes a balance of housing loans arranged in a settlement with the borrower, in the amount of approximately NIS 66 million (December 31, 2017: NIS 66 million).

(6) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

### B. Debts** (continued)

#### 1. Credit quality and arrears[5] (continued)

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Non-problematic | Problematic[1] | | Total | Unimpaired debts*** – additional information | |
| | | Unimpaired | Impaired[2] | | In arrears of 90 days or more[3] | In arrears of 30 to 89 days[4] |
| **Borrower activity overseas** | | | | | | |
| **Public – commercial** | | | | | | |
| Construction and real estate | 4,958 | 4 | 16 | 4,978 | 4 | 8 |
| Commercial – other | 12,441 | 143 | 174 | 12,758 | - | 14 |
| Total commercial | 17,399 | 147 | 190 | 17,736 | 4 | 22 |
| Private individuals | 894 | 2 | 36 | 932 | 2 | 12 |
| Total public – activity overseas | 18,293 | 149 | 226 | 18,668 | 6 | 34 |
| Banks overseas | 23,915 | - | - | 23,915 | - | - |
| Governments overseas | 1,297 | - | - | 1,297 | - | - |
| Total activity overseas | 43,505 | 149 | 226 | 43,880 | 6 | 34 |
| Total public | 263,125 | 3,753 | 2,627 | 269,505 | 913 | *986 |
| Total banks | 24,087 | - | - | 24,087 | - | - |
| Total governments | 2,295 | - | - | 2,295 | - | - |
| Total | 289,507 | 3,753 | 2,627 | 295,887 | 913 | *986 |

* Restated.

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

*** For this purpose, "unimpaired debts" include non-problematic debts.

(1) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 29B.2.c below.

(3) Classified as unimpaired problematic debts accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days, in the amount of approximately NIS 227 million (December 31, 2017: NIS 26 million), were classified as unimpaired problematic debts.

(5) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

**Credit quality – the status of debts in arrears**

The status of debts in arrears is monitored routinely, and serves as one of the key indicators of credit quality. The status of debts in arrears is determined based on actual days of arrears. Debts are treated as nonperforming debts (debts not accruing interest income) after 90 days in arrears, as is any debt that has undergone troubled debt restructuring and has resumed accruing interest when it is 30 days in arrears relative to the new terms of the debt. With regard to debts evaluated on a collective basis, the status of arrears affects the classification of the debt (the classification is more severe for more extensive arrears); debts are charged off by the Bank after 150 days in arrears. With regard to housing loans, with the exception of loans without quarterly or monthly payments, the Bank establishes an allowance according to the method of the extent of arrears.

**Concessions and troubled debt restructuring**

The policy of the Bank regarding concessions takes a range of factors into account in order to maximize repayment to the Bank: management of the relationship with the customer, maximization of opportunities, prevention of default, foreclosures, public aspects, etc.

Concessions are granted only in cases where customers have demonstrated the intention to repay the loans and are expected to meet their obligations.

In cases where, for economic or legal reasons related to financial difficulties of the borrower, the Bank grants a concession to a debtor that it would not grant under other conditions, the debt is considered a troubled debt restructuring.

Troubled debt restructuring may constitute a change in the terms of the debt, leading to reduction or postponement of cash payments required of the debtor in the near future; a reduction of the rate of interest; a reduction of payments on principal; consolidation of debts; etc.

The Bank can consent to receive assets or an interest in the equity capital of the debtor, in cash, as repayment of the debt, even if the value obtained is lower than the amount of the debt, if the Bank reaches the conclusion that this would maximize the recovery of its investment.

## Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

### B. Debts** (continued)

### 2. Additional information regarding impaired debts

a. Impaired debts and individual allowance[3]

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Balance[1] of impaired debts for which an individual allowance exists[2] | Individual allowance[2] | Balance[1] of impaired debts for which no individual allowance exists[2] | Total balance[1] of impaired debts | Balance of contractual principal of impaired debts |
| **Borrower activity in Israel** | | | | | |
| **Public – commercial** | | | | | |
| Construction and real estate – construction | **175** | **42** | **84** | **259** | **2,898** |
| Construction and real estate – real-estate activities | **161** | **13** | **123** | **284** | **1,336** |
| Financial services | **6** | **2** | **22** | **28** | **334** |
| Commercial – other | **816** | **300** | **269** | **1,085** | **4,648** |
| Total commercial | **1,158** | **357** | **498** | **1,656** | **9,216** |
| Private individuals – other | **498** | **145** | **190** | **688** | **1,433** |
| Total public – activity in Israel | **1,656** | **502** | **688** | **2,344** | **10,649** |
| **Borrower activity overseas** | | | | | |
| **Public – commercial** | | | | | |
| Construction and real estate | **1** | **-** | **86** | **87** | **163** |
| Commercial – other | **91** | **51** | **181** | **272** | **522** |
| Total commercial | **92** | **51** | **267** | **359** | **685** |
| Private individuals | **18** | **18** | **-** | **18** | **20** |
| Total public – activity overseas | **110** | **69** | **267** | **377** | **705** |
| Total public* | **1,766** | **571** | **955** | **2,721** | **11,354** |
| * Of which: | | | | | |
| Measured at the present value of cash flows | **1,420** | **437** | **620** | **2,040** | **-** |
| Debts in troubled debt restructuring | **787** | **183** | **513** | **1,300** | **-** |

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(1) Recorded debt balance.

(2) Individual allowance for credit losses.

(3) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

### B. Debts** (continued)

**2. Additional information regarding impaired debts** (continued)

a. Impaired debts and individual allowance[3] (continued)

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Balance[1] of impaired debts for which an individual allowance exists[2] | Individual allowance[2] | Balance[1] of impaired debts for which no individual allowance exists[2] | Total balance[1] of impaired debts | Balance of contractual principal of impaired debts |
| **Borrower activity in Israel** | | | | | |
| **Public – commercial** | | | | | |
| Construction and real estate – construction | 217 | 53 | 121 | 338 | 3,177 |
| Construction and real estate – real-estate activities | 127 | 15 | 146 | 273 | 1,517 |
| Financial services | 4 | 1 | 26 | 30 | 397 |
| Commercial – other | 791 | 232 | 256 | 1,047 | 4,702 |
| Total commercial | 1,139 | 301 | 549 | 1,688 | 9,793 |
| Private individuals – other | 537 | 190 | 176 | 713 | 1,412 |
| Total public – activity in Israel | 1,676 | 491 | 725 | 2,401 | 11,205 |
| **Borrower activity overseas** | | | | | |
| **Public – commercial** | | | | | |
| Construction and real estate | 16 | 2 | - | 16 | 119 |
| Commercial – other | 41 | 3 | 133 | 174 | 406 |
| Total commercial | 57 | 5 | 133 | 190 | 525 |
| Private individuals | 36 | 36 | - | 36 | 39 |
| Total public – activity overseas | 93 | 41 | 133 | 226 | 564 |
| Total public* | 1,769 | 532 | 858 | 2,627 | 11,769 |
| * Of which: | | | | | |
| Measured at the present value of cash flows | 1,231 | 415 | 538 | 1,769 | - |
| Debts in troubled debt restructuring | 749 | 217 | 559 | 1,308 | - |

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(1) Recorded debt balance.

(2) Individual allowance for credit losses.

(3) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

### B. Debts* (continued)

**2. Additional information regarding impaired debts** (continued)

b. Average balance and interest income[2]

| | For the year ended December 31, 2018 | | |
|---|---|---|---|
| | Average balance** of impaired debts | Interest income recorded***[1] | Of which: recorded on a cash basis |
| **Borrower activity in Israel** | | | |
| **Public – commercial** | | | |
| Construction and real estate – construction | **293** | **4** | **3** |
| Construction and real estate – real-estate activities | **271** | **5** | **2** |
| Financial services | **31** | **-** | **-** |
| Commercial – other | **1,086** | **17** | **9** |
| Total commercial | **1,681** | **26** | **14** |
| Private individuals – other | **707** | **48** | **14** |
| Total public – activity in Israel | **2,388** | **74** | **28** |
| **Borrower activity overseas** | | | |
| **Public – commercial** | | | |
| Construction and real estate | **62** | **-** | **-** |
| Commercial – other | **255** | **-** | **-** |
| Total commercial | **317** | **-** | **-** |
| Private individuals | **33** | **-** | **-** |
| Total public – activity overseas | **350** | **-** | **-** |
| Total public | **2,738** | **74** | **28** |

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** Average recorded debt balance of impaired debts in the reported period.

*** Interest income recorded in the reported period in respect of the average balance of impaired debts, during the period in which the debts were classified as impaired.

(1) Had the impaired debts accrued interest according to the original terms, interest income in the amount of NIS 284 million would have been recorded for the year ended December 31, 2018 (2017: NIS 243 million; 2016: NIS 345 million).

(2) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

### B. Debts* (continued)

**2. Additional information regarding impaired debts** (continued)

b. Average balance and interest income[2] (continued)

| | For the year ended December 31, 2017 | | |
|---|---|---|---|
| | Average balance** of impaired debts | Interest income recorded***[1] | Of which: recorded on a cash basis |
| **Borrower activity in Israel** | | | |
| **Public – commercial** | | | |
| Construction and real estate – construction | 363 | 4 | 3 |
| Construction and real estate – real-estate activities | 326 | 5 | 3 |
| Financial services | 76 | 1 | 1 |
| Commercial – other | 1,511 | 18 | 11 |
| Total commercial | 2,276 | 28 | 18 |
| Private individuals – other | 729 | 50 | 19 |
| Total public – activity in Israel | 3,005 | 78 | 37 |
| **Borrower activity overseas** | | | |
| **Public – commercial** | | | |
| Construction and real estate | 25 | - | - |
| Commercial – other | 119 | - | - |
| Total commercial | 144 | - | - |
| Private individuals | 32 | - | - |
| Total public – activity overseas | 176 | - | - |
| Total public | 3,181 | 78 | 37 |

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** Average recorded debt balance of impaired debts in the reported period.

*** Interest income recorded in the reported period in respect of the average balance of impaired debts, during the period in which the debts were classified as impaired.

(1) Had the impaired debts accrued interest according to the original terms, interest income in the amount of NIS 284 million would have been recorded for the year ended December 31, 2018 (2017: NIS 243 million; 2016: NIS 345 million).

(2) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

### B. Debts* (continued)

**2. Additional information regarding impaired debts** (continued)

b. Average balance and interest income[2] (continued)

| | For the year ended December 31, 2016 | | |
|---|---|---|---|
| | Average balance** of impaired debts | Interest income recorded***[1] | Of which: recorded on a cash basis |
| **Borrower activity in Israel** | | | |
| **Public – commercial** | | | |
| Construction and real estate – construction | 386 | 6 | 5 |
| Construction and real estate – real-estate activities | 417 | 11 | 11 |
| Financial services | 290 | 6 | 6 |
| Commercial – other | 2,675 | 20 | 14 |
| Total commercial | 3,768 | 43 | 36 |
| Private individuals – other | 687 | 43 | 18 |
| Total public – activity in Israel | 4,455 | 86 | 54 |
| **Borrower activity overseas** | | | |
| **Public – commercial** | | | |
| Construction and real estate | 81 | - | - |
| Commercial – other | 122 | - | - |
| Total commercial | 203 | - | - |
| Private individuals | 32 | - | - |
| Total public – activity overseas | 235 | - | - |
| Total public | 4,690 | 86 | 54 |

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** Average recorded debt balance of impaired debts in the reported period.

*** Interest income recorded in the reported period in respect of the average balance of impaired debts, during the period in which the debts were classified as impaired.

(1) Had the impaired debts accrued interest according to the original terms, interest income in the amount of NIS 284 million would have been recorded for the year ended December 31, 2018 (2017: NIS 243 million; 2016: NIS 345 million).

(2) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

### B. Debts* (continued)

**2. Additional information regarding impaired debts** (continued)

c. Troubled debt restructuring[3]

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Recorded debt balance | | | |
| | Not accruing interest income | Accruing[1], in arrears of 30 to 89 days | Accruing[1], not in arrears | Total[2] |
| **Borrower activity in Israel** | | | | |
| **Public – commercial** | | | | |
| Construction and real estate – construction | **30** | **-** | **17** | **47** |
| Construction and real estate – real-estate activities | **59** | **-** | **67** | **126** |
| Financial services | **3** | **-** | **1** | **4** |
| Commercial – other | **327** | **-** | **102** | **429** |
| Total commercial | **419** | **-** | **187** | **606** |
| Private individuals – other | **269** | **-** | **355** | **624** |
| Total public | **688** | **-** | **542** | **1,230** |
| **Borrower activity overseas** | | | | |
| **Public – commercial** | | | | |
| Construction and real estate | **15** | **-** | **-** | **15** |
| Commercial – other | **54** | **-** | **1** | **55** |
| Total commercial | **69** | **-** | **1** | **70** |
| Total public | **757** | **-** | **543** | **1,300** |

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(1) Accruing interest income.

(2) Included in impaired debts.

(3) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

Commitments to grant additional credit to debtors who have undergone troubled debt restructuring with changes to the terms of the credit totaled approximately NIS 5 million as at December 31, 2018 (December 31, 2017: NIS 21 million).

## Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

### B. Debts* (continued)

**2. Additional information regarding impaired debts** (continued)

c. Troubled debt restructuring[3] (continued)

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Recorded debt balance | | | |
| | Not accruing interest income | Accruing[1], in arrears of 30 to 89 days | Accruing[1], not in arrears | Total[2] |
| **Borrower activity in Israel** | | | | |
| **Public – commercial** | | | | |
| Construction and real estate – construction | 26 | - | 24 | 50 |
| Construction and real estate – real-estate activities | 96 | - | 74 | 170 |
| Financial services | 3 | - | 1 | 4 |
| Commercial – other | 342 | - | 93 | 435 |
| Total commercial | 467 | - | 192 | 659 |
| Private individuals – other | 287 | - | 349 | 636 |
| Total public – activity in Israel | 754 | - | 541 | 1,295 |
| **Borrower activity overseas** | | | | |
| **Public – commercial** | | | | |
| Commercial – other | - | - | - | - |
| Total commercial | - | 13 | - | 13 |
| Total public – activity overseas | - | 13 | - | 13 |
| Total public | 754 | 13 | 541 | 1,308 |

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(1) Accruing interest income.

(2) Included in impaired debts.

(3) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

Commitments to grant additional credit to debtors who have undergone troubled debt restructuring with changes to the terms of the credit totaled approximately NIS 5 million as at December 31, 2018 (December 31, 2017: NIS 21 million).

## Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

### B. Debts* (continued)

**2. Additional information regarding impaired debts** (continued)

c. Troubled debt restructuring[1] (continued)

| | Debts restructured | | |
|---|---|---|---|
| | **In the year ended December 31, 2018** | | |
| | Number of contracts | Recorded debt balance before restructuring | Recorded debt balance after restructuring |
| **Borrower activity in Israel** | | | |
| **Public – commercial** | | | |
| Construction and real estate – construction | **257** | **64** | **56** |
| Construction and real estate – real-estate activities | **35** | **13** | **11** |
| Financial services | **14** | **6** | **6** |
| Commercial – other | **1,305** | **228** | **226** |
| Total commercial | **1,611** | **311** | **299** |
| Private individuals – other | **7,139** | **362** | **352** |
| Total public – activity in Israel | **8,750** | **673** | **651** |
| **Borrower activity overseas** | | | |
| **Public – commercial** | | | |
| Construction and real estate | **2** | **15** | **15** |
| Commercial – other | **2** | **55** | **55** |
| Private individuals | **9** | **-** | **-** |
| Total public – activity overseas | **13** | **70** | **70** |
| Total public | **8,763** | **743** | **721** |

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

### B. Debts* (continued)

**2. Additional information regarding impaired debts** (continued)

c. Troubled debt restructuring[1] (continued)

| | Debts restructured | | |
|---|---|---|---|
| | In the year ended December 31, 2017 | | |
| | Number of contracts | Recorded debt balance before restructuring | Recorded debt balance after restructuring |
| **Borrower activity in Israel** | | | |
| **Public – commercial** | | | |
| Construction and real estate – construction | 243 | 43 | 36 |
| Construction and real estate – real-estate activities | 38 | 11 | 10 |
| Financial services | 19 | 2 | 2 |
| Commercial – other | 1,187 | 325 | 236 |
| Total commercial | 1,487 | 381 | 284 |
| Private individuals – other | 8,143 | 474 | 442 |
| Total public – activity in Israel | 9,630 | 855 | 726 |
| **Borrower activity overseas** | | | |
| **Public – commercial** | | | |
| Construction and real estate | 1 | - | - |
| Commercial – other | 1 | - | - |
| Private individuals | 16 | - | - |
| Total public – activity overseas | 18 | - | - |
| Total public | 9,648 | 855 | 726 |

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

### B. Debts* (continued)

**2. Additional information regarding impaired debts** (continued)

c. Troubled debt restructuring[1] (continued)

| | Debts restructured | | |
|---|---|---|---|
| | In the year ended December 31, 2016 | | |
| | Number of contracts | Recorded debt balance before restructuring | Recorded debt balance after restructuring |
| **Borrower activity in Israel** | | | |
| **Public – commercial** | | | |
| Construction and real estate – construction | 199 | 135 | 97 |
| Construction and real estate – real-estate activities | 19 | 2 | 2 |
| Financial services | 10 | 1 | 1 |
| Commercial – other | 843 | 201 | 175 |
| Total commercial | 1,071 | 339 | 275 |
| Private individuals – other | 8,309 | 474 | 444 |
| Total public – activity in Israel | 9,380 | 813 | 719 |
| **Borrower activity overseas** | | | |
| **Public – commercial** | | | |
| Construction and real estate | 1 | - | - |
| Commercial – other | 1 | 8 | 7 |
| Private individuals | 30 | 2 | 1 |
| Total public – activity overseas | 32 | 10 | 8 |
| Total public | 9,412 | 823 | 727 |

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

### B. Debts** (continued)

**2. Additional information regarding impaired debts** (continued)

c. Troubled debt restructuring[1] (continued)

| | Failed restructured debts* | | | | | |
|---|---|---|---|---|---|---|
| | **In the year ended December 31, 2018** | | In the year ended December 31, 2017 | | In the year ended December 31, 2016 | |
| | Number of contracts | Recorded debt balance | Number of contracts | Recorded debt balance | Number of contracts | Recorded debt balance |
| **Borrower activity in Israel** | | | | | | |
| **Public – commercial** | | | | | | |
| Construction and real estate – construction | **140** | **10** | 91 | 7 | 79 | 41 |
| Construction and real estate – real-estate activities | **18** | **1** | 13 | - | 9 | - |
| Financial services | **5** | **1** | 3 | - | 8 | - |
| Commercial – other | **552** | **31** | 391 | 32 | 364 | 33 |
| Total commercial | **715** | **43** | 498 | 39 | 460 | 74 |
| Private individuals – other | **3,136** | **60** | 3,187 | 66 | 3,331 | 70 |
| Total public – activity in Israel | **3,851** | **103** | 3,685 | 105 | 3,791 | 144 |
| **Borrower activity overseas** | | | | | | |
| **Public – commercial** | | | | | | |
| Commercial – other | **1** | **54** | - | - | - | - |
| Private individuals | **6** | **-** | 5 | - | 12 | 1 |
| Total public – activity overseas | **7** | **54** | 5 | - | 12 | 1 |
| Total public | **3,858** | **157** | 3,690 | 105 | 3,803 | 145 |

* Debts that became debts in arrears of 30 days or more during the reporting period, and underwent troubled debt restructuring during the 12 months preceding the date on which they became debts in arrears.

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

### B. Debts** (continued)

### 3. Additional information regarding housing loans – private individuals

Year-end balances by financing ratio (LTV)*, repayment type, and interest type

| | | December 31, 2018 | | | |
|---|---|---|---|---|---|
| | | Balance of housing loans – private individuals | | | Off-balance sheet credit risk |
| | | Total | Of which: bullet and balloon | Of which: floating interest rate | |
| First lien: financing rate | Up to 60% | **45,364** | **1,521** | **28,722** | **2,518** |
| | Over 60% | **24,409** | **416** | **16,693** | **1,624** |
| Secondary lien or no lien | | **637** | **29** | **365** | **561** |
| Total | | **70,410** | **1,966** | **45,780** | **4,703** |

| | | December 31, 2017 | | | |
|---|---|---|---|---|---|
| | | Balance of housing loans – private individuals | | | Off-balance sheet credit risk |
| | | Total | Of which: bullet and balloon | Of which: floating interest rate | |
| First lien: financing rate | Up to 60% | 41,627 | 1,775 | 26,194 | ***1,489 |
| | Over 60% | 22,907 | 355 | 15,995 | ***803 |
| Secondary lien or no lien | | 642 | 23 | 364 | ***604 |
| Total | | 65,176 | 2,153 | 42,553 | 2,896 |

* Ratio of the approved credit facility, when the facility was granted, to the value of the asset, as approved by the Bank when the facility was granted.

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

*** Reclassified.

### Credit quality – LTV ratio

The LTV ratio provides another indication of credit quality for the Bank. The LTV ratio is the ratio of the amount of the loan to the estimated value of the financed asset, as approved by the Bank when the credit facility was granted. The LTV ratio is calculated at the time of approval of the credit, with the following exceptions:

1. Granting of additional credit secured by the same asset.
2. Receiving a loan from another corporation with a joint pari-passu lien on the asset.
3. Transfer of a mortgage.
4. A part of a credit facility that has not been utilized.
5. Substantial early repayment (10 percent or more).

The note presents balances of debt in respect of housing loans, with segmentation by ranges of LTV ratios and levels of liens.

## Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

### C. Sale, acquisition, and syndication of credit to the public during the year

#### 1. Sale and acquisition of credit to the public

| | Risk of credit to the public sold | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **For the year ended December 31, 2018** | | | | | For the year ended December 31, 2017 | | | | |
| | Credit to the public sold this year | Off-balance sheet credit risk* sold this year | Of which: problematic credit | Total profit in respect of credit sold | Year-end balance of credit sold for which the Bank provides service | Credit to the public sold this year | Off-balance sheet credit risk* sold this year | Of which: problematic credit | Total profit (loss) in respect of credit sold | Year-end balance of credit sold for which the Bank provides service |
| Total commercial | **225** | **101** | **13** | **56** | **2,402** | 135 | - | - | 5 | 2,359 |
| Private individuals – housing loans | **-** | **-** | **-** | **-** | **621** | - | - | - | - | 743 |
| Private individuals – other | **-** | **-** | **-** | **-** | **-** | 51 | - | - | (1) | - |
| Total risk of credit to the public | **225** | **101** | **13** | **56** | **3,023** | 186 | - | - | 4 | 3,102 |

| | Risk of credit to the public acquired | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **For the year ended December 31, 2018** | | | | For the year ended December 31, 2017 | | | |
| | Credit to the public acquired this year[1] | Off-balance sheet credit risk* acquired this year | Of which: problematic credit | Year-end balance of credit acquired | Credit to the public acquired this year[1] | Off-balance sheet credit risk* acquired this year | Of which: problematic credit | Year-end balance of credit acquired |
| Total commercial | **8,170** | **37** | **-** | **1,862** | 6,096 | 616 | - | 1,498 |
| Private individuals – housing loans | **-** | **-** | **-** | **-** | - | - | - | - |
| Private individuals – other | **-** | **-** | **-** | **-** | - | - | - | - |
| Total risk of credit to the public | **8,170** | **37** | **-** | **1,862** | 6,096 | 616 | - | 1,498 |

* Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, excluding in respect of derivative instruments.

(1) Mostly includes short-term discounting transactions.

## Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

### C. Sale, acquisition, and syndication of credit to the public during the year

**2. Syndications and participation in loan syndications[2]**

| | Balance as at December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Syndication transactions initiated by the Bank* | | | | Syndication transactions initiated by others | |
| | Share of the Bank | | Share of others | | Share of the Bank | |
| | Credit to the public | Off-balance sheet credit risk** | Credit to the public | Off-balance sheet credit risk** | Credit to the public | Off-balance sheet credit risk** |
| Total commercial | **8,413** | **3,089** | **16,981** | **7,839** | **6,393** | **4,201** |
| Private individuals – housing loans | **-** | **-** | **-** | **-** | **-** | **-** |
| Private individuals – other | **34** | **-** | **13** | **-** | **-** | **-** |
| Total credit to the public | **8,447** | **3,089** | **16,994** | **7,839** | **6,393** | **4,201** |

| | Balance as at December 31, 2017[1] | | | | | |
|---|---|---|---|---|---|---|
| | Syndication transactions initiated by the Bank* | | | | Syndication transactions initiated by others | |
| | Share of the Bank | | Share of others | | Share of the Bank | |
| | Credit to the public | Off-balance sheet credit risk** | Credit to the public | Off-balance sheet credit risk** | Credit to the public | Off-balance sheet credit risk** |
| Total commercial | 8,414 | 2,631 | 16,256 | 4,132 | 4,133 | 2,765 |
| Private individuals – housing loans | - | - | - | - | - | - |
| Private individuals – other | 44 | - | 15 | - | - | - |
| Total credit to the public | 8,458 | 2,631 | 16,271 | 4,132 | 4,133 | 2,765 |

* Including if the Bank is a material service provider in the syndication transaction.

** Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, excluding in respect of derivative instruments.

(1) Restated.

(2) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

### D. Balances of credit to the public[(1)] and of off-balance sheet credit risk[(1)(2)] by volume of credit per borrower*

| | December 31, 2018 | | |
|---|---|---|---|
| | Number of borrowers[(3)] | Credit**[(1)] | Off-balance sheet credit risk[(1)(2)] |
| **Credit per borrower in NIS thousands** | | | |
| Up to 10 | **761,183** | **712** | **907** |
| 10 to 20 | **198,733** | **1,161** | **1,603** |
| 20 to 40 | **209,321** | **3,038** | **2,927** |
| 40 to 80 | **213,875** | **7,861** | **4,437** |
| 80 to 150 | **179,650** | **14,724** | **4,968** |
| 150 to 300 | **121,210** | **20,058** | **5,087** |
| 300 to 600 | **70,838** | **26,188** | **4,272** |
| 600 to 1,200 | **63,392** | **47,393** | **6,016** |
| 1,200 to 2,000 | **16,870** | **21,521** | **3,455** |
| 2,000 to 4,000 | **5,688** | **12,443** | **2,621** |
| 4,000 to 8,000 | **2,015** | **8,395** | **2,749** |
| 8,000 to 20,000 | **1,533** | **13,069** | **6,442** |
| 20,000 to 40,000 | **817** | **14,578** | **8,197** |
| 40,000 to 200,000 | **1,005** | **52,495** | **33,601** |
| 200,000 to 400,000 | **124** | **18,705** | **14,910** |
| 400,000 to 800,000 | **62** | **18,693** | **14,574** |
| 800,000 to 1,200,000 | **18** | **9,373** | **8,344** |
| 1,200,000 to 1,600,000 | **4** | **2,651** | **3,032** |
| 1,600,000 to 2,000,000 | **1** | **15** | **1,834** |
| 2,000,000 to 3,200,000 | **2** | **2,044** | **3,516** |
| Over 3,200,000 | **1** | **1,276** | **2,315** |
| Total | **1,846,342** | **296,393** | **135,807** |

* Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

** Credit to the public, investments in bonds of the public, other assets in respect of derivative instruments where the public is the counterparty, at a total of NIS 286,265, 4,238, and 5,890 million, respectively.

(1) Credit and off-balance sheet credit risk are presented before the effect of the allowance for credit losses, and before the effect of deductible collateral for the purpose of the indebtedness of borrowers and of groups of borrowers.

(2) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness.

(3) The number of borrowers is calculated according to total credit and off-balance sheet credit risk.

**Note:**

Data for credit and off-balance sheet credit risk (hereinafter: "credit") in the credit brackets up to NIS 8,000 thousand, including the number of borrowers, were calculated by aggregating the data in each credit bracket of each consolidated company (layer-based consolidation), whereas data on credit over NIS 8,000 thousand, including the number of borrowers, were calculated by aggregating the credit of each borrower throughout the Bank Group and classifying it in the appropriate credit bracket (specific consolidation).

## Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

### D. Balances of credit to the public[(1)] and of off-balance sheet credit risk[(1)(2)] by volume of credit per borrower* (continued)

| | December 31, 2017 | | |
|---|---|---|---|
| | Number of borrowers[(3)] | Credit**[(1)] | Off-balance sheet credit risk[(1)(2)] |
| **Credit per borrower in NIS thousands** | | | |
| Up to 10 | 736,541 | 646 | 908 |
| 10 to 20 | 198,577 | 1,176 | 1,602 |
| 20 to 40 | 209,267 | 3,134 | 2,852 |
| 40 to 80 | 214,620 | 8,086 | 4,267 |
| 80 to 150 | 178,220 | 14,835 | 4,731 |
| 150 to 300 | 121,396 | 20,338 | 4,848 |
| 300 to 600 | 70,598 | 26,176 | 4,058 |
| 600 to 1,200 | 58,285 | 43,893 | 5,086 |
| 1,200 to 2,000 | 15,029 | 19,624 | 2,694 |
| 2,000 to 4,000 | 5,428 | 12,008 | 2,361 |
| 4,000 to 8,000 | 2,022 | 8,487 | 2,664 |
| 8,000 to 20,000 | 1,537 | 13,263 | 6,261 |
| 20,000 to 40,000 | 803 | 14,064 | 8,353 |
| 40,000 to 200,000 | 948 | 46,618 | 32,691 |
| 200,000 to 400,000 | 130 | 16,921 | 17,977 |
| 400,000 to 800,000 | 61 | 18,549 | 15,228 |
| 800,000 to 1,200,000 | 8 | 4,570 | 3,411 |
| 1,200,000 to 1,600,000 | 4 | 2,003 | 3,350 |
| 1,600,000 to 2,000,000 | 2 | 1,831 | 1,937 |
| 2,000,000 to 3,200,000 | 1 | 1,365 | 680 |
| Over 3,200,000 | 2 | 1,558 | 5,012 |
| Total | 1,813,479 | 279,145 | 130,971 |

* Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

** Credit to the public, investments in bonds of the public, other assets in respect of derivative instruments where the public is the counterparty, at a total of NIS 269,505, 3,729, and 5,911 million, respectively.

(1) Credit and off-balance sheet credit risk are presented before the effect of the allowance for credit losses, and before the effect of deductible collateral for the purpose of the indebtedness of borrowers and of groups of borrowers.

(2) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness.

(3) The number of borrowers is calculated according to total credit and off-balance sheet credit risk.

**Note:**

Data for credit and off-balance sheet credit risk (hereinafter: "credit") in the credit brackets up to NIS 8,000 thousand, including the number of borrowers, were calculated by aggregating the data in each credit bracket of each consolidated company (layer-based consolidation), whereas data on credit over NIS 8,000 thousand, including the number of borrowers, were calculated by aggregating the credit of each borrower throughout the Bank Group and classifying it in the appropriate credit bracket (specific consolidation).

## Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

### E. Off-balance sheet financial instruments[1]

| | December 31 | | | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | Contract balances* | | Allowance for credit losses | |
| Transactions the balance of which represents a credit risk: | | | | |
| (a) Documentary credit | **1,397** | 1,825 | **8** | 7 |
| (b) Credit guarantees | **5,609** | 5,618 | **35** | 60 |
| (c) Guarantees to purchasers of homes | **22,517** | 24,511 | **69** | 68 |
| (d) Other guarantees and liabilities** | **24,364** | 22,854 | **159** | 179 |
| (e) Unutilized credit facilities for credit cards under the responsibility of the Bank | **14,689** | 13,799 | **36** | 38 |
| (f) Unutilized revolving overdraft and other credit facilities in on-demand accounts** | **41,403** | 37,604 | **94** | 102 |
| (g) Irrevocable commitments to grant creditapproved but not yet drawn*** | **30,306** | 24,368 | **101** | 86 |
| (h) Commitments to issue guarantees | **20,449** | 19,725 | **66** | 68 |
| Off-balance sheet financial instrument contract balances attributed to a discontinued operation | **24,845** | 23,104 | **21** | 19 |

* Contract balances or the nominal amounts thereof at year end, before the effect of the allowance for credit losses.

** Includes the Bank's liabilities in respect of its share in the risk fund of the Maof Clearing House, in the amount of NIS 174 million (December 31, 2017: NIS 311 million).

*** Includes commitments to grant credit given to customers in loans "approved in principle with a hold on the interest rate," under Proper Conduct of Banking Business Directive 451, "Procedures for Granting Housing Loans."

(1) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations, including restatement of comparative figures. For details, see Note 1G to the Financial Statements.

## Note 29 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

### F. Guarantees[1]

The Bank provides a wide range of guarantees and indemnities for its customers, in order to enable them to complete a wide variety of transactions. The maximum amount of potential future payments is established according to the nominal amount of the guarantees, without taking into consideration possible reimbursements or collateral held or pledged. To the extent necessary, the Bank customarily receives collateral or commitments of various kinds, such as deposits, securities, real estate, financial ratios, etc. Most of the guarantees at the Bank are assigned the rating of the execution of the credit.

| | **December 31, 2018** | | | | | |
|---|---|---|---|---|---|---|
| | Contract balances or nominal amounts | | | | | |
| | Expiring in 1 year or less | Expiring in 1 year to 3 years | Expiring in more than 3 years up to 5 years | Expiring in more than 5 years | No expiration date | Total |
| Credit guarantees | **3,898** | **660** | **158** | **839** | **54** | **5,609** |
| Guarantees to purchasers of homes | **5,163** | **-** | **-** | **-** | **17,354** | **22,517** |
| Guarantees and other commitments | **10,666** | **5,596** | **3,447** | **4,655** | **-** | **24,364** |
| Commitments to issue guarantees | **9,125** | **9,843** | **1,422** | **59** | **-** | **20,449** |
| Total | **28,852** | **16,099** | **5,027** | **5,553** | **17,408** | **72,939** |

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Contract balances or nominal amounts | | | | | |
| | Expiring in 1 year or less | Expiring in 1 year to 3 years | Expiring in more than 3 years up to 5 years | Expiring in more than 5 years | No expiration date | Total |
| Credit guarantees | 3,722 | 1,092 | 284 | 434 | 86 | 5,618 |
| Guarantees to purchasers of homes | 5,080 | - | - | - | 19,431 | 24,511 |
| Guarantees and other commitments | 11,357 | 4,397 | 1,599 | 5,501 | - | 22,854 |
| Commitments to issue guarantees | 9,070 | 9,879 | 776 | - | - | 19,725 |
| Total | 29,229 | 15,368 | 2,659 | 5,935 | 19,517 | 72,708 |

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 30 Assets and Liabilities by Linkage Base[3]

NIS millions

| | December 31, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Israeli currency | | Foreign currency[1] | | | Non-monetary items* | Total |
| | Unlinked | CPI-linked | USD | EUR | Other | | |
| **Assets** | | | | | | | |
| Cash and deposits with banks | 69,982 | - | 12,341 | 311 | 1,825 | - | 84,459 |
| Securities | 25,935 | 2,645 | 24,881 | 846 | 288 | 1,521 | 56,116 |
| Securities borrowed or purchased under agreements to resell | 708 | - | - | - | - | - | 708 |
| Net credit to the public[2] | 203,606 | 46,180 | 24,463 | 4,864 | 2,575 | 819 | 282,507 |
| Credit to governments | 94 | - | 1,361 | 973 | - | - | 2,428 |
| Investments in equity-basis investees | 45 | - | - | - | - | 58 | 103 |
| Buildings and equipment | - | - | - | - | - | 3,111 | 3,111 |
| Assets in respect of derivative instruments | 3,889 | 715 | 4,079 | 432 | 323 | 1,096 | 10,534 |
| Other assets | 4,062 | 7 | 49 | 79 | 43 | 1,610 | 5,850 |
| Assets attributed to a discontinued operation | 14,394 | 62 | 115 | 55 | - | 484 | 15,110 |
| Total assets | 322,715 | 49,609 | 67,289 | 7,560 | 5,054 | 8,699 | 460,926 |
| **Liabilities** | | | | | | | |
| Deposits from the public | 246,394 | 12,493 | 78,007 | 10,645 | 3,891 | 830 | 352,260 |
| Deposits from banks | 2,104 | 124 | 1,934 | 344 | 22 | - | 4,528 |
| Deposits from the government | 106 | 3 | 99 | - | - | - | 208 |
| Bonds and subordinated notes | 1,857 | 27,796 | 339 | 11 | 21 | - | 30,024 |
| Liabilities in respect of derivative instruments | 3,893 | 622 | 3,492 | 306 | 263 | 1,100 | 9,676 |
| Other liabilities | 6,933 | 316 | 2,700 | 204 | 397 | 1,291 | 11,841 |
| Liabilities attributed to a discontinued operation | 14,362 | 68 | 275 | 5 | - | 23 | 14,733 |
| Total liabilities | 275,649 | 41,422 | 86,846 | 11,515 | 4,594 | 3,244 | 423,270 |
| Surplus assets (liabilities) | 47,066 | 8,187 | (19,557) | (3,955) | 460 | 5,455 | 37,656 |
| Effect of non-hedging derivatives: | | | | | | | |
| Derivative instruments (excluding options) | (23,613) | 553 | 20,198 | 3,384 | (522) | - | - |
| Options in the money, net (in terms of underlying asset) | 1,153 | - | (1,401) | 439 | (191) | - | - |
| Options out of the money, net (in terms of underlying asset) | (276) | - | 44 | 173 | 59 | - | - |
| Overall total | 24,330 | 8,740 | (716) | 41 | (194) | 5,455 | 37,656 |
| Options in the money, net (nominal present value) | 1,916 | - | (2,111) | 68 | 127 | - | - |
| Options out of the money, net (nominal present value) | (3,076) | - | 1,542 | 763 | 771 | - | - |

* Including derivative instruments whose underlying asset refers to a non-monetary item.
(1) Including linked to foreign currency.
(2) After deduction of allowances for credit losses attributed to the linkage bases.
(3) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations, including restatement of comparative figures. For details, see Note 1G.

## Note 30 Assets and Liabilities by Linkage Base[3] (continued)

NIS millions

| | December 31, 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Israeli currency | | Foreign currency[1] | | | Non-monetary items* | Total |
| | Unlinked | CPI-linked | USD | EUR | Other | | |
| **Assets** | | | | | | | |
| Cash and deposits with banks | 61,914 | - | 20,690 | 444 | 3,036 | 9 | 86,093 |
| Securities | 37,119 | 54 | 24,345 | 1,108 | 590 | 2,200 | 65,416 |
| Securities borrowed or purchased under agreements to resell | 684 | - | - | - | - | - | 684 |
| Net credit to the public[2] | 194,007 | 44,848 | 20,989 | 3,367 | 1,791 | 851 | 265,853 |
| Credit to governments | 99 | - | 1,150 | 1,043 | - | - | 2,292 |
| Investments in equity-basis investees | 55 | - | - | - | - | 143 | 198 |
| Buildings and equipment | - | - | - | - | - | 3,123 | 3,123 |
| Assets in respect of derivative instruments | 7,747 | 1,041 | 1,544 | 648 | 217 | 816 | 12,013 |
| Other assets | 3,987 | 3 | 61 | 67 | 24 | 1,181 | 5,323 |
| Assets attributed to a discontinued operation | 12,842 | 71 | 113 | 32 | - | 371 | 13,429 |
| Total assets | 318,454 | 46,017 | 68,892 | 6,709 | 5,658 | 8,694 | 454,424 |
| **Liabilities** | | | | | | | |
| Deposits from the public | 242,277 | 13,642 | 74,930 | 11,851 | 3,758 | 886 | 347,344 |
| Deposits from banks | 1,608 | 125 | 1,443 | 438 | 35 | - | 3,649 |
| Deposits from the government | 216 | 6 | 98 | - | - | - | 320 |
| Securities lent or sold under agreements to repurchase | - | - | - | - | 367 | - | 367 |
| Bonds and subordinated notes | 3,398 | 24,580 | 937 | 11 | 132 | - | 29,058 |
| Liabilities in respect of derivative instruments | 7,621 | 1,347 | 1,635 | 437 | 222 | 787 | 12,049 |
| Other liabilities | 7,478 | 703 | 1,624 | 182 | 310 | 902 | 11,199 |
| Liabilities attributed to a discontinued operation | 14,072 | 80 | 209 | 21 | - | 52 | 14,434 |
| Total liabilities | 276,670 | 40,483 | 80,876 | 12,940 | 4,824 | 2,627 | 418,420 |
| Surplus assets (liabilities) | 41,784 | 5,534 | (11,984) | (6,231) | 834 | 6,067 | 36,004 |
| Effect of hedging derivatives: | | | | | | | |
| Derivative instruments (excluding options) | 1,015 | - | (17) | - | (998) | - | - |
| Effect of non-hedging derivatives: | | | | | | | |
| Derivative instruments (excluding options) | (20,436) | 429 | 14,237 | 5,610 | 160 | - | - |
| Options in the money, net (in terms of underlying asset) | 1,705 | - | (1,827) | 369 | (247) | - | - |
| Options out of the money, net (in terms of underlying asset) | 451 | - | (683) | 166 | 66 | - | - |
| Overall total | 24,519 | 5,963 | (274) | (86) | (185) | 6,067 | 36,004 |
| Options in the money, net (nominal present value) | 1,957 | - | (1,577) | (120) | (260) | - | - |
| Options out of the money, net (nominal present value) | 1,081 | - | (1,971) | 682 | 208 | - | - |

* Including derivative instruments whose underlying asset refers to a non-monetary item.
(1) Including linked to foreign currency.
(2) After deduction of allowances for credit losses attributed to the linkage bases.
(3) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations, including restatement of comparative figures. For details, see Note 1G.

## Note 31 Assets and Liabilities by Currency and by Term to Maturity[5]

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Future expected contractual cash flows* | | | | |
| | On demand up to 1 month | Over 1 month up to 3 months | Over 3 months up to 1 year | Over 1 year up to 2 years | Over 2 years up to 3 years |
| | NIS millions | | | | |
| **Israeli currency (including foreign-currency linked)** | | | | | |
| Assets | **106,814** | **18,049** | **60,698** | **36,291** | **30,049** |
| Liabilities | **220,116** | **16,234** | **20,489** | **12,722** | **9,467** |
| Difference | **(113,302)** | **1,815** | **40,209** | **23,569** | **20,582** |
| Derivative instruments (excluding options) | **(8,228)** | **3,296** | **(12,272)** | **(338)** | **220** |
| Options (in terms of underlying asset) | **117** | **65** | **227** | **(222)** | **-** |
| Difference after effect of derivative instruments | **(121,413)** | **5,176** | **28,164** | **23,009** | **20,802** |
| **Foreign currency**** | | | | | |
| Assets | **23,311** | **5,504** | **9,544** | **9,615** | **10,858** |
| Liabilities | **60,652** | **11,686** | **23,873** | **2,573** | **1,448** |
| Difference | **(37,341)** | **(6,182)** | **(14,329)** | **7,042** | **9,410** |
| Of which: difference in USD | **(28,674)** | **(5,058)** | **(14,744)** | **5,658** | **8,407** |
| Of which: difference in respect of foreign operations | **13,016** | **(3,346)** | **(3,373)** | **3,284** | **3,345** |
| Derivative instruments (excluding options) | **8,220** | **(3,322)** | **12,346** | **348** | **(161)** |
| Options (in terms of underlying asset) | **(117)** | **(65)** | **(227)** | **222** | **-** |
| Difference after effect of derivative instruments | **(29,238)** | **(9,569)** | **(2,210)** | **7,612** | **9,249** |
| **Total as at December 31, 2018** | | | | | |
| Assets*** | **130,125** | **23,553** | **70,242** | **45,906** | **40,907** |
| Liabilities**** | **280,768** | **27,920** | **44,362** | **15,295** | **10,915** |
| Difference | **(150,643)** | **(4,367)** | **25,880** | **30,611** | **29,992** |
| *** Of which: credit to the public | **41,649** | **19,984** | **53,995** | **38,886** | **28,381** |
| **** Of which: deposits from the public | **272,951** | **22,813** | **35,516** | **6,118** | **3,961** |
| Assets attributed to a discontinued operation | **7,434** | **2,533** | **2,931** | **1,051** | **548** |
| Liabilities attributed to a discontinued operation | **8,989** | **2,535** | **2,431** | **387** | **112** |

* This note presents expected future contractual cash flows in respect of assets and liabilities by currency, according to the remaining contractual maturity periods of each cash flow. The data are presented net of the effect of charge-offs and of allowances for credit losses.

** Excluding Israeli currency linked to foreign currency.

(1) Assets with no maturity period, including assets in the amount of NIS 3,790 million, which are past due.

(2) As included in Note 30, "Assets and Liabilities by Linkage Base," including off-balance sheet amounts in respect of derivatives.

(3) The contractual return rate is the interest rate discounting the expected contractual future cash flows presented in this note in respect of a monetary item to its balance sheet balance.

(4) Including revolving credit in the amount of NIS 11,569 million, of which amounts in excess of revolving credit facilities in the amount of NIS 2,416 million.

(5) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations, including restatement of comparative figures. For details, see Note 1G.

| December 31, 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Future expected contractual cash flows* | | | | | | Balance sheet balance[2] | | Contractual return rate[3] |
| Over 3 years up to 4 years | Over 4 years up to 5 years | Over 5 years up to 10 years | Over 10 years up to 20 years | Over 20 years | Total cash flows | No maturity period[1] | Total | |
| NIS millions | | | | | | | | % |
| 25,960 | 16,433 | 47,786 | 35,957 | 11,268 | 389,305 | 3,850 | 359,018 | 2.9% |
| 9,365 | 6,597 | 11,295 | 1,666 | 5 | 307,956 | 26 | 302,813 | 1.9% |
| 16,595 | 9,836 | 36,491 | 34,291 | 11,263 | 81,349 | 3,824 | 56,205 | - |
| (401) | 217 | 694 | - | - | (16,812) | - | (16,974) | - |
| 663 | - | 592 | - | - | 1,442 | - | 1,352 | - |
| 16,857 | 10,053 | 37,777 | 34,291 | 11,263 | 65,979 | 3,824 | 40,583 | - |
| | | | | | | | | |
| 8,617 | 5,182 | 10,844 | 1,107 | 181 | 84,763 | 2,208 | 78,583 | 3.9% |
| 985 | 855 | 1,047 | 345 | 4 | 103,468 | 4 | 102,503 | 2.1% |
| 7,632 | 4,327 | 9,797 | 762 | 177 | (18,705) | 2,204 | (23,920) | - |
| 7,088 | 3,962 | 8,887 | 346 | 179 | 13,949 | 1,723 | 18,002 | - |
| 1,957 | 1,765 | 1,166 | 143 | 166 | 18,123 | (2) | 16,954 | - |
| 395 | (216) | (791) | (7) | - | 16,812 | - | 16,974 | - |
| (663) | - | (592) | - | - | (1,442) | - | (1,352) | - |
| 7,364 | 4,111 | 8,414 | 755 | 177 | (3,335) | 2,204 | (8,299) | - |
| | | | | | | | | |
| 34,577 | 21,615 | 58,630 | 37,064 | 11,449 | 474,068 | 6,058 | [4]437,601 | 3.1% |
| 10,350 | 7,452 | 12,342 | 2,011 | 9 | 411,424 | 30 | 405,316 | 1.9% |
| 24,227 | 14,163 | 46,288 | 35,053 | 11,440 | 62,644 | 6,028 | 32,285 | - |
| 22,418 | 17,340 | 42,506 | 36,270 | 11,178 | 312,607 | 5,940 | 281,688 | 3.3% |
| 4,327 | 3,633 | 3,360 | 1,650 | 5 | 354,334 | - | 351,430 | 1.7% |
| 361 | 9 | - | - | - | 14,867 | 162 | 14,626 | |
| 36 | 30 | 7 | - | - | 14,527 | 91 | 14,710 | |

## Note 31 Assets and Liabilities by Currency and by Term to Maturity[5] (continued)

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Future expected contractual cash flows* | | | | |
| | On demand up to 1 month | Over 1 month up to 3 months | Over 3 months up to 1 year | Over 1 year up to 2 years | Over 2 years up to 3 years |
| | NIS millions | | | | |
| **Israeli currency (including foreign-currency linked)** | | | | | |
| Assets | 98,059 | 20,681 | 61,248 | 38,159 | 33,692 |
| Liabilities | 217,721 | 13,341 | 23,519 | 12,732 | 11,362 |
| Difference | (119,662) | 7,340 | 37,729 | 25,427 | 22,330 |
| Derivative instruments (excluding options) | (7,505) | (3,964) | (2,728) | 2,511 | 105 |
| Options (in terms of underlying asset) | 140 | 494 | 462 | 243 | - |
| Difference after effect of derivative instruments | (127,027) | 3,870 | 35,463 | 28,181 | 22,435 |
| **Foreign currency**** | | | | | |
| Assets | 30,031 | 4,294 | 7,455 | 10,363 | 6,934 |
| Liabilities | 62,494 | 12,891 | 16,195 | 3,003 | 984 |
| Difference | (32,463) | (8,597) | (8,740) | 7,360 | 5,950 |
| Of which: difference in USD | (25,025) | (8,236) | (7,639) | 7,003 | 4,654 |
| Of which: difference in respect of foreign operations | 11,245 | (4,230) | (1,540) | 3,571 | 3,259 |
| Derivative instruments (excluding options) | 7,481 | 3,945 | 2,780 | (2,496) | (89) |
| Options (in terms of underlying asset) | (140) | (494) | (462) | (243) | - |
| Difference after effect of derivative instruments | (25,122) | (5,146) | (6,422) | 4,621 | 5,861 |
| **Total as at December 31, 2017** | | | | | |
| Assets*** | 128,090 | 24,975 | 68,703 | 48,522 | 40,626 |
| Liabilities**** | 280,215 | 26,232 | 39,714 | 15,735 | 12,346 |
| Difference | (152,125) | (1,257) | 28,989 | 32,787 | 28,280 |
| *** Of which: credit to the public | 41,036 | 17,921 | 51,001 | 37,994 | 7,355 |
| **** Of which: deposits from the public | 272,983 | 21,075 | 32,438 | 5,891 | 4,004 |
| Assets attributed to a discontinued operation | 3,674 | 3,507 | 3,796 | 1,235 | 617 |
| Liabilities attributed to a discontinued operation | 8,306 | 2,724 | 2,607 | 367 | 104 |

* This note presents expected future contractual cash flows in respect of assets and liabilities by currency, according to the remaining contractual maturity periods of each cash flow. The data are presented net of the effect of charge-offs and of allowances for credit losses.

** Excluding Israeli currency linked to foreign currency.

(1) Assets with no maturity period, including assets in the amount of NIS 6,016 million, which are past due.

(2) As included in Note 30, "Assets and Liabilities by Linkage Base," including off-balance sheet amounts in respect of derivatives.

(3) The contractual return rate is the interest rate discounting the expected contractual future cash flows presented in this note in respect of a monetary item to its balance sheet balance.

(4) Including revolving credit in the amount of NIS 15,053 million, of which amounts in excess of revolving credit facilities in the amount of NIS 3,708 million.

(5) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations, including restatement of comparative figures. For details, see Note 1G.

| December 31, 2017 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Future expected contractual cash flows* | | | | | | Balance sheet balance[2] | | Contractual return rate[3] |
| Over 3 years up to 4 years | Over 4 years up to 5 years | Over 5 years up to 10 years | Over 10 years up to 20 years | Over 20 years | Total cash flows | No maturity period[1] | Total | |
| NIS millions | | | | | | | | % |
| | | | | | | | | |
| 24,977 | 17,559 | 40,679 | 31,748 | 12,669 | 379,471 | 2,916 | 354,147 | 2.8% |
| 7,325 | 9,357 | 6,709 | 1,273 | 4,110 | 307,449 | 16 | 303,274 | 2.1% |
| 17,652 | 8,202 | 33,970 | 30,475 | 8,559 | 72,022 | 2,900 | 50,873 | - |
| 313 | (368) | 865 | 75 | - | (10,696) | - | (10,911) | - |
| - | 634 | 569 | - | - | 2,542 | - | 2,371 | - |
| 17,965 | 8,468 | 35,404 | 30,550 | 8,559 | 63,868 | 2,900 | 42,333 | - |
| | | | | | | | | |
| 7,434 | 8,709 | 8,003 | 1,278 | 176 | 84,677 | 939 | 78,525 | 3.0% |
| 894 | 774 | 856 | 351 | 72 | 98,514 | 7 | 98,137 | 1.4% |
| 6,540 | 7,935 | 7,147 | 927 | 104 | (13,837) | 932 | (19,612) | - |
| 6,248 | 7,491 | 6,092 | 513 | 166 | (8,733) | 1,028 | (11,707) | - |
| 1,777 | 1,791 | 1,123 | 143 | 166 | 17,305 | (13) | 16,108 | - |
| (253) | 349 | (946) | - | - | 10,771 | - | 10,911 | - |
| - | (634) | (569) | - | - | (2,542) | - | (2,371) | - |
| 6,287 | 7,650 | 5,632 | 927 | 104 | (5,608) | 932 | (11,072) | - |
| | | | | | | | | |
| 32,411 | 26,268 | 48,682 | 33,026 | 12,845 | 464,148 | 3,855 | [4]432,672 | 2.9% |
| 8,219 | 10,131 | 7,565 | 1,624 | 4,182 | 405,963 | 23 | 401,411 | 1.9% |
| 24,192 | 16,137 | 41,117 | 31,402 | 8,663 | 58,185 | 3,832 | 29,937 | - |
| 20,927 | 16,807 | 38,596 | 32,320 | 7,355 | 271,312 | 3,790 | 265,002 | 3.2% |
| 2,305 | 4,022 | 4,449 | 1,595 | 5 | 348,767 | - | 346,458 | 1.7% |
| 375 | - | 6 | - | - | 13,210 | 174 | 13,058 | - |
| 38 | - | 70 | - | - | 14,216 | 91 | 14,382 | - |

## Note 32 Balances and Fair-Value Estimates of Financial Instruments

### Fair value of financial instruments

This note includes information concerning the assessment of the fair value of financial instruments.

A "market price" cannot be quoted for the majority of financial instruments at the Bank because no active market exists in which they are traded. Fair value is therefore estimated by means of accepted pricing models, such as the present value of future cash flows discounted by a discounting interest rate that reflects the level of risk inherent in the financial instrument. An estimate of fair value by means of an assessment of future cash flows and the setting of a discounting interest rate is subjective. Therefore, for the majority of financial instruments, the following assessment of fair value is not necessarily an indication of the disposal value of the financial instrument on the reporting date. The fair value is assessed on the basis of the interest rates valid at the reporting date, and does not take interest-rate volatility into account. Under the assumption of different interest rates, fair values would be obtained that may differ materially. This mainly applies to financial instruments that bear a fixed rate of interest or that do not bear interest. In addition, the assessment of fair value does not take into consideration fees to be received or paid in the course of business activity, and does not include the effect of non-controlling interests or tax effects. Moreover, the difference between the balance sheet balance and fair value balances may not be realized, because in the majority of cases the financial instrument may be held to maturity by the Bank. Due to all of these factors, it should be emphasized that data included in this note are insufficient to indicate the value of the banking corporation as a going concern. In addition, due to the broad spectrum of assessment techniques and estimates that can be applied in assessing fair value, caution should be exercised when comparing fair values between different banks.

### Principal methods and assumptions used to estimate the fair value of financial instruments

**Deposits with banks, nonmarketable bonds and loans, and credit to the government –** By discounting future cash flows according to the interest rates at which the Bank executed similar transactions at the reporting date.

**Marketable securities –** According to market value in the primary market.

**Credit to the public –** The fair value of the balance of credit to the public is estimated using the method of the present value of future cash flows, discounted by a suitable discount rate. The balance of credit was segmented into homogeneous categories. In each category, the flow of future receipts (principal and interest) was calculated. These receipts were discounted by an interest rate reflecting the level of risk inherent in the credit in that category.

This interest rate was usually determined according to the interest rate at which similar transactions were executed at the Bank at the reporting date.

The fair value of impaired debts was calculated using discount rates reflecting the high credit risk inherent in such debts. In any case, these discount rates were not lower than the highest interest rate used by the Bank in its transactions at the reporting date.

Future cash flows for impaired debts and other debts were calculated after the deduction of the effects of charge-offs and of allowances for credit losses in respect of the debts. An increase of 1% in discounting interest rates of impaired debts would reduce their fair value by a total of NIS 10 million.

## Note 32 Balances and Fair-Value Estimates of Financial Instruments (continued)

Charge-offs and allowances for credit losses were attributed to the periods in which the debt was classified, where possible (e.g. when an allowance was calculated on an individual basis according to the present value of a cash flow). In the absence of these data, charge-offs and the allowance are attributed proportionally to the balance of credit, according to the term to maturity at the end of the period.

The calculation of fair value includes assumptions regarding early repayment of housing loans, in accordance with the estimates of the Bank, based on an examination of the historical data regarding early repayment in relation to parameters that explain such repayment. The effect of these assumptions on fair value resulted in an increase of the fair value by NIS 107 million.

**Deposits, bonds, and notes –** By discounting future cash flows according to the interest rates at which the corporation raises similar deposits or the Bank issues similar bonds and notes (if a price quoted in an active market is not available) at the reporting date. With regard to bonds and subordinated notes traded as an asset in an active market, fair value is based on quoted market prices or on quotes from traders for an identical liability traded as an asset in an active market.

**Inter-customer lending –** Presented as credit and deposits, and measured according to the value of the loaned securities on the stock market.

**Derivative financial instruments –** Derivative financial instruments that have an active market were assessed at the market value established in the primary market.

Derivative financial instruments not traded in an active market were assessed on the basis of models used by the Bank in its routine operations, taking into account the risks inherent in the financial instrument.

The measurement of the fair value of derivative instruments takes the credit risk inherent in such transactions into account, among other factors.

Estimates of the fair value of assets in respect of derivative instruments also reflect the credit risk of the counterparty, and estimates of the fair value of liabilities in respect of derivative instruments also reflect the credit risk of the Bank.

**Off-balance sheet financial instruments in which the balance represents credit risk –** Fair value is presented according to the balance sheet balance of the fees in the aforesaid transactions, which constitute an approximation of the fair value.

**Assets and liabilities for which fair value is measured based on Level 3 data –** Items for which fair value is determined based on an indicative price from an independent entity, indicative price of a counterparty to the transaction, or evaluation models in which some of the significant inputs are unobservable; and items for which fair value is determined based on internal calculators or service bureaus, some of the inputs of which are unobservable.

## Note 32 Balances and Fair-Value Estimates of Financial Instruments (continued)

NIS millions

### A. Balances and fair-value estimates of financial instruments[2]

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Balance sheet balance | Fair value[1] | | | Total |
| | | Level 1 | Level 2 | Level 3 | |
| **Financial assets** | | | | | |
| Cash and deposits with banks | **84,459** | **3,044** | **-** | **81,391** | **84,435** |
| Securities* | **56,116** | **29,580** | **24,937** | **1,602** | **56,119** |
| Securities borrowed or purchased under agreements to resell | **708** | **-** | **-** | **708** | **708** |
| Net credit to the public*** | **282,507** | **3,715** | **-** | **277,962** | **281,677** |
| Credit to governments | **2,428** | **-** | **-** | **2,435** | **2,435** |
| Assets in respect of derivative instruments | **10,534** | **1,099** | **7,428** | **2,007** | **10,534** |
| Other financial assets | **1,814** | **1,010** | **-** | **870** | **1,880** |
| Assets attributed to a discontinued operation | **14,456** | **45** | **-** | **14,386** | **14,431** |
| Total financial assets | ****453,022** | **38,493** | **32,365** | **381,361** | **452,219** |
| **Financial liabilities** | | | | | |
| Deposits from the public*** | **352,260** | **5,723** | **-** | **347,139** | **352,862** |
| Deposits from banks | **4,528** | **-** | **-** | **4,544** | **4,544** |
| Deposits from the government | **208** | **-** | **-** | **220** | **220** |
| Securities lent or sold under agreements to repurchase | **-** | **-** | **-** | **2** | **2** |
| Bonds and subordinated notes | **30,024** | **27,182** | **2,023** | **1,107** | **30,312** |
| Liabilities in respect of derivative instruments | **9,676** | **1,100** | **7,725** | **851** | **9,676** |
| Other financial liabilities | **5,684** | **1,010** | **-** | **4,748** | **5,758** |
| Liabilities attributed to a discontinued operation | **14,544** | **-** | **-** | **14,508** | **14,508** |
| Total financial liabilities | ****416,924** | **35,015** | **9,748** | **373,119** | **417,882** |
| Off-balance sheet financial instruments | | | | | |
| Transactions in which the balance represents credit risk | **-** | **-** | **-** | **113** | **113** |

* Includes shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 1,020 million. For further details regarding the balance sheet balance and fair value of securities, see Note 12.

** Of which: assets and liabilities in the amount of NIS 73,001 million and in the amount of NIS 16,411 million, respectively, whose balance sheet balance is identical to their fair value (instruments presented at fair value in the balance sheet). For further information regarding instruments measured at fair value on a recurring basis and on a nonrecurring basis, see Sections B-F.

*** Of which, amounts of NIS 0 million and NIS 2 million (respectively) were included in the balance of credit to the public and in the balance of deposits from the public, in respect of embedded derivative instruments.

(1) Level 1 – Fair-value measurements using quoted prices on an active market.
Level 2 – Fair-value measurements using other significant observable inputs.
Level 3 – Fair-value measurements using significant unobservable inputs.

(2) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations, including restatement of comparative figures. For details, see Note 1G.

## Note 32 Balances and Fair-Value Estimates of Financial Instruments (continued)

NIS millions

### A. Balances and fair-value estimates of financial instruments[2] (continued)

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Balance sheet balance | Fair value[1] | | | Total |
| | | Level 1 | Level 2 | Level 3 | |
| **Financial assets** | | | | | |
| Cash and deposits with banks | 86,093 | 3,194 | - | 82,870 | 86,064 |
| Securities* | 65,416 | 40,219 | 23,723 | 1,479 | 65,421 |
| Securities borrowed or purchased under agreements to resell | 684 | - | - | 684 | 684 |
| Net credit to the public*** | 265,856 | 5,205 | - | 261,780 | 266,985 |
| Credit to governments | 2,292 | - | - | 2,302 | 2,302 |
| Assets in respect of derivative instruments | 12,013 | 809 | 7,270 | 3,934 | 12,013 |
| Other financial assets | 1,267 | 617 | - | 661 | 1,278 |
| Assets attributed to a discontinued operation | 12,885 | 17 | - | 12,847 | 12,864 |
| Total financial assets | **446,506 | 50,061 | 30,993 | 366,557 | 447,611 |
| **Financial liabilities** | | | | | |
| Deposits from the public*** | 347,344 | 5,371 | - | 343,449 | 348,820 |
| Deposits from banks | 3,649 | - | - | 3,666 | 3,666 |
| Deposits from the government | 320 | - | - | 334 | 334 |
| Securities lent or sold under agreements to repurchase | 367 | - | - | 368 | 368 |
| Bonds and subordinated notes | 29,058 | 26,176 | 2,114 | 2,209 | 30,499 |
| Liabilities in respect of derivative instruments | 12,049 | 809 | 6,886 | 4,354 | 12,049 |
| Other financial liabilities | 4,179 | 617 | - | 3,596 | 4,213 |
| Liabilities attributed to a discontinued operation | 14,164 | - | - | 14,130 | 14,130 |
| Total financial liabilities | **411,130 | 32,973 | 9,000 | 372,106 | 414,079 |
| Off-balance sheet financial instruments | | | | | |
| Transactions in which the balance represents credit risk | - | - | - | 113 | 113 |

* Includes shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 848 million. For further details regarding the balance sheet balance and fair value of securities, see Note 12.

** Of which: assets and liabilities in the amount of NIS 85,209 million and in the amount of NIS 18,062 million, respectively, whose balance sheet balance is identical to their fair value (instruments presented at fair value in the balance sheet). For further information regarding instruments measured at fair value on a recurring basis and on a nonrecurring basis, see Sections B-F.

*** Of which, amounts of NIS 0 million and NIS 25 million (respectively) were included in the balance of credit to the public and in the balance of deposits from the public, in respect of embedded derivative instruments.

(1) Level 1 – Fair-value measurements using quoted prices on an active market.
Level 2 – Fair-value measurements using other significant observable inputs.
Level 3 – Fair-value measurements using significant unobservable inputs.

(2) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations, including restatement of comparative figures. For details, see Note 1G.

## Note 32 Balances and Fair-Value Estimates of Financial Instruments (continued)

NIS millions

### B. Items measured at fair value on a recurring basis*

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Fair value measurements using | | | Total fair value |
| | Prices quoted in an active market (Level 1) | Other significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | |
| **Assets** | | | | |
| **Securities available for sale** | | | | |
| Israeli government bonds | 21,803 | 4,570 | - | 26,373 |
| Foreign government bonds | 374 | 10,046 | - | 10,420 |
| Bonds of financial institutions in Israel | 114 | - | - | 114 |
| Bonds of foreign financial institutions | 305 | 7,777 | 191 | 8,273 |
| Bonds of others in Israel | - | 141 | - | 141 |
| Bonds of foreign others | 136 | 2,403 | - | 2,539 |
| Tradable shares | 470 | - | - | 470 |
| **Securities held for trading** | | | | |
| Israeli government bonds | 6,266 | - | - | 6,266 |
| Foreign government bonds | 69 | - | - | 69 |
| Bonds of foreign others | 2 | - | - | 2 |
| Tradable shares | 41 | - | - | 41 |
| Total securities measured at fair value | 29,580 | 24,937 | 191 | 54,708 |
| **Assets in respect of derivative instruments** | | | | |
| NIS-CPI contracts | - | 287 | 79 | 366 |
| Other interest contracts | - | 3,791 | 652 | 4,443 |
| Foreign-currency contracts | 35 | 3,097 | 1,153 | 4,285 |
| Share contracts | 1,064 | 232 | 81 | 1,377 |
| Commodity and other contracts | - | 21 | 42 | 63 |
| Credit in respect of inter-customer lending | 3,715 | - | - | 3,715 |
| Assets in respect of activity in the Maof market | 1,010 | - | - | 1,010 |
| Total assets | 35,404 | 32,365 | 2,198 | 69,967 |
| **Liabilities** | | | | |
| **Liabilities in respect of derivative instruments** | | | | |
| NIS-CPI contracts | - | 199 | 25 | 224 |
| Other interest contracts | - | 4,532 | 56 | 4,588 |
| Foreign-currency contracts | 36 | 2,638 | 749 | 3,423 |
| Share contracts | 1,064 | 294 | 19 | 1,377 |
| Commodity and other contracts | - | 62 | 2 | 64 |
| Liabilities in respect of embedded derivatives | - | (12) | 14 | 2 |
| Deposits in respect of inter-customer lending | 3,715 | - | - | 3,715 |
| Liabilities in respect of activity in the Maof market | 1,010 | - | - | 1,010 |
| Liabilities in respect of securities lending | 2,008 | - | - | 2,008 |
| Total liabilities | 7,833 | 7,713 | 865 | 16,411 |

* Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 32 Balances and Fair-Value Estimates of Financial Instruments (continued)

NIS millions

### B. Items measured at fair value on a recurring basis* (continued)

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Fair value measurements using | | | Total fair value |
| | Prices quoted in an active market (Level 1) | Other significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | |
| **Assets** | | | | |
| **Securities available for sale** | | | | |
| Israeli government bonds | 31,593 | 3,935 | - | 35,528 |
| Foreign government bonds | 673 | 12,424 | - | 13,097 |
| Bonds of financial institutions in Israel | 73 | - | - | 73 |
| Bonds of foreign financial institutions | 673 | 5,442 | 212 | 6,327 |
| Bonds of others in Israel | - | 402 | - | 402 |
| Bonds of foreign others | 703 | 1,520 | - | 2,223 |
| Tradable shares | 1,294 | - | - | 1,294 |
| **Securities held for trading** | | | | |
| Israeli government bonds | 5,069 | - | - | 5,069 |
| Foreign government bonds | 71 | - | - | 71 |
| Bonds of foreign others | 3 | - | - | 3 |
| Tradable shares | 67 | - | - | 67 |
| Total securities measured at fair value | 40,219 | 23,723 | 212 | 64,154 |
| **Assets in respect of derivative instruments** | | | | |
| NIS-CPI contracts | - | 249 | 196 | 445 |
| Other interest contracts | - | 4,072 | 2,222 | 6,294 |
| Foreign-currency contracts | 42 | 2,888 | 1,418 | 4,348 |
| Share contracts | 767 | 57 | 90 | 914 |
| Commodity and other contracts | - | 4 | 8 | 12 |
| Credit in respect of inter-customer lending | 5,214 | - | - | 5,214 |
| Assets in respect of activity in the Maof market | 617 | - | - | 617 |
| Total assets | 46,859 | 30,993 | 4,146 | 81,998 |
| **Liabilities** | | | | |
| **Liabilities in respect of derivative instruments** | | | | |
| NIS-CPI contracts | - | 372 | 93 | 465 |
| Other interest contracts | - | 4,679 | 1,927 | 6,606 |
| Foreign-currency contracts | 41 | 1,818 | 2,231 | 4,090 |
| Share contracts | 768 | 16 | 93 | 877 |
| Commodity and other contracts | - | 1 | 10 | 11 |
| Liabilities in respect of embedded derivatives | - | (4) | 29 | 25 |
| Deposits in respect of inter-customer lending | 5,214 | - | - | 5,214 |
| Liabilities in respect of activity in the Maof market | 617 | - | - | 617 |
| Liabilities in respect of securities lending | 157 | - | - | 157 |
| Total liabilities | 6,797 | 6,882 | 4,383 | 18,062 |

* Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

## Note 32 Balances and Fair-Value Estimates of Financial Instruments (continued)

NIS millions

### C. Items measured at fair value on a nonrecurring basis

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Fair value measurements using | | | Total fair value | Total profit (loss) in respect of changes in value in the period ended December 31, 2018 |
| | Prices quoted in an active market (Level 1) | Other significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | | |
| **Assets measured at fair value on a nonrecurring basis** | | | | | |
| Impaired credit the collection of which is contingent on collateral | **-** | **-** | **681** | **681** | **[1] 117** |
| Investments in shares | **-** | **-** | **49** | **49** | **[2] (34)** |
| Total | **-** | **-** | **730** | **730** | **83** |

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Fair value measurements using | | | Total fair value | Total profit (loss) in respect of changes in value in the period ended December 31, 2017 |
| | Prices quoted in an active market (Level 1) | Other significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | | |
| **Assets measured at fair value on a nonrecurring basis** | | | | | |
| Impaired credit the collection of which is contingent on collateral | - | - | 858 | 858 | [1] (207) |
| Investments in shares | - | - | 48 | 48 | [2] (19) |
| Total | - | - | 906 | 906 | (226) |

(1) Losses included in the statement of profit and loss under the item "provision for credit losses."
(2) Losses included in the statement of profit and loss under the item "non-interest financing income."

## Note 32 Balances and Fair-Value Estimates of Financial Instruments (continued)

NIS millions

### D. Changes in items measured at fair value on a recurring basis included in Level 3

| | Fair value as at December 31, 2017 | Gains (losses) included in statement of profit and loss[1][3] | Gains (losses) included in equity[2] | Acquisitions | Extinguishment | Transfers to Level 3 | Transfers from Level 3 | Fair value as at December 31, 2018 | Unrealized gains (losses) in respect of instruments held as at December 31, 2018 |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| **Securities available for sale** | | | | | | | | | |
| Bonds of foreign financial institutions | **212** | **16** | **-** | **-** | **(37)** | **-** | **-** | **191** | [2][1]**-** |
| **Net balances in respect of derivative instruments** | | | | | | | | | |
| NIS-CPI contracts | **103** | **(59)** | **-** | **-** | **10** | **-** | **-** | **54** | [3]**(62)** |
| Other interest contracts | **295** | **40** | **-** | **5** | **256** | **-** | **-** | **596** | [3][1]**86** |
| Foreign-currency contracts | **(813)** | **(236)** | **-** | **12** | **1,441** | **-** | **-** | **404** | [3]**159** |
| Share contracts | **(3)** | **8** | **-** | **(1)** | **58** | **-** | **-** | **62** | [3]**(32)** |
| Commodity and other contracts | **(2)** | **29** | **-** | **10** | **3** | **-** | **-** | **40** | [3]**(9)** |
| Embedded derivatives | **(29)** | **3** | **-** | **-** | **12** | **-** | **-** | **(14)** | [3]**(2)** |
| Total | **(237)** | **(199)** | **-** | **26** | **1,743** | **-** | **-** | **1,333** | **140** |

(1) Gains (losses) included in the statement of profit and loss under the item "interest income."
(2) Gains (losses) included in equity under the item "adjustments for presentation of securities available for sale at fair value."
(3) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."

## Note 32 Balances and Fair-Value Estimates of Financial Instruments (continued)

NIS millions

### D. Changes in items measured at fair value on a recurring basis included in Level 3 (continued)

| | Fair value as at December 31, 2016 | Gains (losses) included in statement of profit and loss[1][3] | Gains (losses) included in equity[2] | Acquisitions | Extinguishment | Transfers to Level 3 | Transfers from Level 3 | Fair value as at December 31, 2017 | Unrealized gains (losses) in respect of instruments held as at December 31, 2017 |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| **Securities available for sale** | | | | | | | | | |
| Bonds of foreign financial institutions | 156 | - | (15) | 73 | (2) | - | - | 212 | [2][1](15) |
| **Net balances in respect of derivative instruments** | | | | | | | | | |
| NIS-CPI contracts | 78 | 23 | - | - | (1) | 3 | - | 103 | [3](9) |
| Other interest contracts | 589 | (49) | - | (28) | (75) | (116) | (26) | 295 | [3][1](113) |
| Foreign-currency contracts | 1,523 | (384) | - | 41 | (405) | (467) | (1,121) | (813) | [3](848) |
| Share contracts | 25 | (17) | - | 3 | (14) | - | - | (3) | [3](33) |
| Commodity and other contracts | 7 | (1) | - | - | (6) | - | (2) | (2) | [3](1) |
| Embedded derivatives | (16) | (20) | - | (3) | 10 | - | - | (29) | [3](20) |
| Total | 2,362 | (448) | (15) | 86 | (493) | (580) | (1,149) | (237) | (1,039) |

(1) Gains (losses) included in the statement of profit and loss under the item "interest income."
(2) Gains (losses) included in equity under the item "adjustments for presentation of securities available for sale at fair value."
(3) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."

### E. During the period, there were no transfers of items measured at fair value between Level 1 and Level 2.

### F. During the period, there were no transfers of items measured at fair value from Level 3 measurement to Level 2 measurement, with the exception of transfers due to transaction counterparty risk. In accordance with the policy of the banking corporation, transfers from level to level are recognized as occurring at the end of the reported period.

## Note 32 Balances and Fair-Value Estimates of Financial Instruments (continued)

### G. Additional information regarding significant unobservable inputs and assessment techniques used in the measurement of the fair value of items classified as Level 3

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Fair value | Assessment technique | Unobservable inputs | Range (weighted average) |
| | NIS millions | | | |
| **1. Items measured at fair value on a recurring basis** | | | | |
| **Assets** | | | | |
| Bonds of foreign financial institutions | **191** | Quote from transaction counterparty | | |
| **Net balances in respect of derivative instruments** | | | | |
| NIS-CPI contracts | **54** | Currency and interest-rate derivatives pricing model | Transaction counterparty risk | 0.38%-8.27% (2.03%) |
| Other interest contracts | **596** | Interest-rate derivatives pricing model | Transaction counterparty risk | 0.38%-18.30% (6.10%) |
| Foreign-currency contracts | **404** | Option pricing model | Transaction counterparty risk | |
| Share contracts | **-** | | | |
| Share contracts | **64** | Share derivatives pricing model | Transaction counterparty risk | 0.38%-3.68% (2.57%) |
| Share contracts[1] | **(2)** | Option pricing model | Quote from counterparty | |
| | **-** | | Dividend yield | |
| | **-** | | Unlinked NIS interest rate | |
| Commodity and other contracts | **40** | Currency derivatives pricing model | Transaction counterparty risk | 0.38%-18.30% (6.10%) |
| Embedded derivatives[2] | **(14)** | Option pricing model | Quote from counterparty | |
| **2. Items measured at fair value on a nonrecurring basis** | | | | |
| Investment in non-tradable shares | **49** | Valuation | | |
| Impaired credit the collection of which is contingent on collateral | **681** | Tradable assets – market value less an appropriate safety coefficient | | |
| | | Non-tradable assets – discounted cash flow less an appropriate safety coefficient | | |

Sensitivity analysis of fair-value measurements classified as Level 3:

(1) An increase (decrease) in the standard deviation would lead to a significantly higher (lower) fair-value measurement. Conversely, an increase (decrease) in the dividend yield or in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.

(2) An increase (decrease) in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.

## Note 32 Balances and Fair-Value Estimates of Financial Instruments (continued)

### G. Additional information regarding significant unobservable inputs and assessment techniques used in the measurement of the fair value of items classified as Level 3 (continued)

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Fair value | Assessment technique | Unobservable inputs | Range (weighted average) |
| | NIS millions | | | |
| **1. Items measured at fair value on a recurring basis** | | | | |
| **Assets** | | | | |
| Bonds of foreign financial institutions | 212 | Quote from transaction counterparty | | |
| **Net balances in respect of derivative instruments** | | | | |
| NIS-CPI contracts | 103 | Currency and interest-rate derivatives pricing model | Transaction counterparty risk | 0.44%-2.77% (0.96%) |
| Other interest contracts | 295 | Interest-rate derivatives pricing model | Transaction counterparty risk | 0.44%-14.85% (1.00%) |
| Foreign-currency contracts | (813) | Option pricing model | Transaction counterparty risk | 0.44%-14.85% (1.20%) |
| Share contracts | (33) | Share derivatives pricing model | Transaction counterparty risk | 0.44%-14.85% (4.58%) |
| Share contracts | 28 | Option pricing model | Quote from counterparty | |
| Share contracts[1] | 2 | Option pricing model | Standard deviation | 36.14%-41.81% (36.26%) |
| | | | Dividend yield | |
| | | | Unlinked NIS interest rate | 0.06%-0.97% (0.13%) |
| Commodity and other contracts | (2) | Currency derivatives pricing model | Transaction counterparty risk | 0.44%-14.83% (0.88%) |
| Embedded derivatives[2] | (29) | Option pricing model | Quote from counterparty | |
| **2. Items measured at fair value on a nonrecurring basis** | | | | |
| Investment in non-tradable shares | 48 | Valuation | | |
| Impaired credit the collection of which is contingent on collateral | 858 | Tradable assets – market value less an appropriate safety coefficient | | |
| | | Non-tradable assets – discounted cash flow less an appropriate safety coefficient | | |

Sensitivity analysis of fair-value measurements classified as Level 3:

(1) An increase (decrease) in the standard deviation would lead to a significantly higher (lower) fair-value measurement. Conversely, an increase (decrease) in the dividend yield or in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.

(2) An increase (decrease) in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.

## Note 33 Interested and Related Parties

NIS millions

### Parent companies, controlling shareholder, and subsidiaries

In general, interested party and related party transactions were carried out in the ordinary course of business, due to business considerations, on terms similar to terms of transactions with entities unrelated to the Bank. In several cases, the Bank supported banking subsidiaries, according to common practice, through investment in capital, loans, letters of comfort, etc. Income or expenses related to such transactions are included in the appropriate items of the statement of profit and loss. The balances include the Isracard Group.

### A. Balance sheet balances

| | December 31, 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Interested parties | | | | | | | |
| | Shareholders | | Interested party at the time of the transaction | | Officers* | | Others | |
| | Year-end balance | Highest balance during the year** | Year-end balance | Highest balance during the year** | Year-end balance | Highest balance during the year** | Year-end balance | Highest balance during the year** |
| **Assets** | | | | | | | | |
| Securities | - | - | 159 | 247 | - | - | - | - |
| Credit to the public | - | - | 1,149 | 1,704 | 10 | 12 | 19 | 205 |
| Allowance for credit losses | - | - | (6) | (5) | - | - | - | - |
| Net credit to the public | - | - | 1,143 | 1,699 | 10 | 12 | 19 | 205 |
| Other assets | - | - | 14 | 183 | - | - | 35 | 44 |
| **Liabilities** | | | | | | | | |
| Deposits from the public | 21 | 21 | - | - | 54 | 88 | 114 | 302 |
| Other liabilities | - | - | - | - | 56 | 83 | 92 | 105 |
| Shares (included in equity) | 7,872 | 7,886 | - | - | 30 | 34 | - | - |
| **Credit risk in off-balance sheet financial instruments*** ** | - | - | 1,250 | 1,805 | 6 | 9 | 55 | 683 |

* Pursuant to Section 80D(3) of the Public Reporting Directives.
** Based on the balance at the end of each month.
*** As calculated for the purpose of the limit on borrower indebtedness.

## Note 33 Interested and Related Parties (continued)

NIS millions

### A. Balance sheet balances (continued)

| | December 31, 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Related parties held by the Bank and its consolidated companies | | | | | | | |
| | Unconsolidated subsidiaries | | Others | | Equity-basis investees | | Others | |
| | Year-end balance | Highest balance during the year* | Year-end balance | Highest balance during the year* | Year-end balance | Highest balance during the year* | Year-end balance | Highest balance during the year* |
| **Assets** | | | | | | | | |
| Securities | - | - | - | - | - | - | 250 | 250 |
| Credit to the public | - | - | - | - | 137 | 144 | 124 | 151 |
| Allowance for credit losses | - | - | - | - | (1) | (1) | (2) | (2) |
| Net credit to the public | - | - | - | - | 136 | 143 | 122 | 149 |
| Investments in equity-basis investees[1] | - | - | - | - | 103 | 203 | - | - |
| Other assets | - | - | - | - | 2 | 2 | 5 | 6 |
| **Liabilities** | | | | | | | | |
| Deposits from the public | 4 | 10 | - | - | 113 | 142 | 49 | 139 |
| Other liabilities | - | - | - | - | 23 | 25 | 1 | 2 |
| **Credit risk in off-balance sheet financial instruments**** | - | - | - | - | 148 | 169 | 143 | 216 |

* Based on the balance at the end of each month.
** As calculated for the purpose of the limit on borrower indebtedness.
(1) Details of this item are also included in Note 15.

## Note 33 Interested and Related Parties (continued)

NIS millions

### A. Balance sheet balances (continued)

| | December 31, 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Interested parties | | | | | | | |
| | Controlling shareholders | | Interested party at the time of the transaction | | Officers* | | Others | |
| | Year-end balance | Highest balance during the year** | Year-end balance | Highest balance during the year** | Year-end balance | Highest balance during the year** | Year-end balance | Highest balance during the year** |
| **Assets** | | | | | | | | |
| Securities | - | - | 231 | 389 | - | - | - | - |
| Credit to the public | - | - | 1,699 | 1,754 | 8 | 8 | 205 | 231 |
| Allowance for credit losses | - | - | - | - | - | - | (5) | (6) |
| Net credit to the public | - | - | 1,699 | 1,754 | 8 | 8 | 200 | 225 |
| Other assets | - | - | 134 | 215 | - | - | 2 | 12 |
| **Liabilities** | | | | | | | | |
| Deposits from the public | 18 | 20 | - | - | 48 | 65 | 164 | 1,277 |
| Deposits from banks | - | - | - | - | - | - | - | - |
| Bonds and subordinated notes | - | - | - | - | - | - | - | 30 |
| Other liabilities | - | - | - | - | 80 | 82 | 58 | 147 |
| Shares (included in equity) | 7,198 | 7,198 | - | - | 35 | 35 | - | - |
| **Credit risk in off-balance sheet financial instruments*** ** | - | - | 730 | 1,769 | 7 | 8 | 683 | 1,031 |

* Pursuant to Section 80D(3) of the Public Reporting Directives.
** Based on the balance at the end of each month.
*** As calculated for the purpose of the limit on borrower indebtedness.

## Note 33 Interested and Related Parties (continued)

NIS millions

### A. Balance sheet balances (continued)

| | December 31, 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Related parties held by the Bank and its consolidated companies | | | | | | | |
| | Unconsolidated subsidiaries | | Others | | Equity-basis investees | | Others | |
| | Year-end balance | Highest balance during the year** | Year-end balance | Highest balance during the year** | Year-end balance | Highest balance during the year** | Year-end balance | Highest balance during the year** |
| **Assets** | | | | | | | | |
| Securities | - | - | - | - | *- | *- | - | 228 |
| Credit to the public | - | - | - | - | *121 | *123 | *14 | - |
| Allowance for credit losses | - | - | - | - | (1) | (1) | - | - |
| Net credit to the public | - | - | - | - | *120 | *122 | *14 | - |
| Investments in equity-basis investees[1] | - | - | - | - | 203 | 203 | - | - |
| Other assets | - | - | - | - | 1 | 1 | 1 | 1 |
| **Liabilities** | | | | | | | | |
| Deposits from the public | 2 | 2 | - | - | 107 | 134 | 15 | 57 |
| Other liabilities | - | - | - | - | 18 | 18 | - | - |
| **Credit risk in off-balance sheet financial instruments*** ** | - | - | - | - | 65 | 73 | *143 | 254 |

* Restated.
** Based on the balance at the end of each month.
*** As calculated for the purpose of the limit on borrower indebtedness.
(1) Details of this item are also included in Note 15.

## Note 33 Interested and Related Parties (continued)

NIS millions

### B. Income and expenses in the statement of profit and loss

| | for the year ended December 31, 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Interested parties | | | | Related parties held by the Bank and its consolidated companies | | | Total |
| | Shareholders | Others | Officers** | Others | Unconsolidated subsidiaries | Equity-basis investees | Others*** | |
| Net interest income* | - | - | - | - | - | 5 | 3 | 8 |
| Income (provision) in respect of credit losses | - | - | - | - | - | - | - | - |
| Non-interest income | 1 | - | - | 12 | - | 5 | 20 | 38 |
| Of which: management and service fees | - | - | - | 4 | - | 1 | 9 | 14 |
| Operating and other expenses | - | - | (1)(48) | (3) | - | (24) | (74) | (148) |
| Of which: interested party employed by or on behalf of the corporation: 19 | - | - | (42) | - | - | - | - | (42) |
| Benefits to directors not employed by the corporation or on its behalf – number of beneficiaries: 9 | 1 | - | (6) | - | - | - | - | (5) |
| Total | - | - | (48) | 9 | - | (14) | (51) | (102) |

* Details in section C below.

** Pursuant to Section 80D(3) of the Public Reporting Directives, including those who retired during the year.

*** Parties meeting the definition of a related party, who were not included in other columns, and a party on whose business the activity of the Bank and of its consolidated companies depends to a significant extent.

(1) Short-term employee benefits – NIS 35 million; post-employment benefits – NIS 0 million; severance benefits – NIS 0 million; other long-term benefits – NIS 1 million; share-based payment – NIS 5 million.

## Note 33 Interested and Related Parties (continued)

NIS millions

### B. Income and expenses in the statement of profit and loss (continued)

| | For the year ended December 31, 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Interested parties | | | | Related parties held by the Bank and its consolidated companies | | | Total |
| | Controlling shareholders | Others | Officers** | Others | Unconsolidated subsidiaries | Equity-basis investees | Others*** | |
| Net interest income* | - | - | - | 10 | - | 4 | - | 14 |
| Income (provision) in respect of credit losses | - | - | - | 2 | - | - | - | 2 |
| Non-interest income | - | - | - | 24 | - | 1 | - | 25 |
| Of which: management and service fees | - | - | - | 18 | - | - | - | 18 |
| Operating and other expenses | - | - | (2)(44) | (10) | - | (1)(41) | (1)(25) | (120) |
| Of which: interested party employed by or on behalf of the corporation: 17 | - | - | (35) | - | - | - | - | (35) |
| Benefits to directors not employed by the corporation or on its behalf – number of beneficiaries: 10 | - | - | (9) | - | - | - | - | (9) |
| Total | - | - | (44) | 26 | - | (1)(36) | (1)(25) | (79) |

* Details in section C below.
** Pursuant to Section 80D(3) of the Public Reporting Directives, including those who retired during the year.
*** Parties meeting the definition of a related party, who were not included in other columns, and a party on whose business the activity of the Bank and of its consolidated companies depends to a significant extent.
(1) Restated.
(2) Short-term employee benefits – NIS 32 million; post-employment benefits – NIS 0 million; severance benefits – NIS 0 million; other long-term benefits – NIS 1 million; share-based payment – NIS 2 million.

## Note 33 Interested and Related Parties (continued)

NIS millions

### B. Income and expenses in the statement of profit and loss (continued)

| | For the year ended December 31, 2016 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Interested parties | | | | Related parties held by the Bank and its consolidated companies | | | Total |
| | Controlling shareholders | Others | Officers** | Others | Unconsolidated subsidiaries | Equity-basis investees | Others*** | |
| Net interest income* | - | 14 | - | 186 | 1 | 2 | - | 203 |
| Income (provision) in respect of credit losses | - | - | - | 28 | - | - | (1) | 27 |
| Non-interest income | - | 9 | - | 24 | - | 1 | 98 | 132 |
| Of which: management and service fees | - | - | - | 5 | - | - | - | 5 |
| Operating and other expenses | | (19) | (2)(103) | (26) | - | (1)(36) | (1)(24) | (209) |
| Of which: interested party employed by or on behalf of the corporation: 17 | - | - | (89) | - | - | - | - | (89) |
| Benefits to directors not employed by the corporation or on its behalf – number of beneficiaries: 10 | - | - | (14) | - | - | - | - | (14) |
| Total | - | 4 | (103) | 212 | 1 | (1)(33) | (1)73 | 153 |

* Details in section C below.
** Pursuant to Section 80D(3) of the Public Reporting Directives, including those who retired during the year.
*** Parties meeting the definition of a related party, who were not included in other columns, and a party on whose business the activity of the Bank and of its consolidated companies depends to a significant extent.
(1) Restated.
(2) Short-term employee benefits – NIS 39 million; post-employment benefits – NIS 0 million; severance benefits – NIS 0 million; other long-term benefits – NIS 44 million; share-based payment – NIS 6 million.

## Note 33 Interested and Related Parties (continued)

NIS millions

### C. Net interest income in transactions with interested and related parties

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| **Income (expenses)** | | | |
| **In respect of assets** | | | |
| From credit to the public | **8** | 14 | 211 |
| From deposits with banks | **-** | - | - |
| From securities borrowed or purchased under agreements to resell | **-** | - | - |
| From bonds | **-** | - | 13 |
| From other assets | **-** | - | - |
| **In respect of liabilities** | | | |
| On deposits from the public | **-** | - | (18) |
| On deposits from banks | **-** | - | - |
| On securities borrowed or purchased under agreements to repurchase | **-** | - | - |
| On bonds and subordinated notes | **-** | - | (3) |
| On other liabilities | **-** | - | - |
| **Other** | | | |
| Financing transaction fees | **-** | - | - |
| Other financing income | **-** | - | - |
| Total | **8** | 14 | 203 |

### D. Information regarding terms of transactions and balances with related and interested parties

In general, interested party and related party transactions were carried out in the ordinary course of business, due to business considerations, on terms similar to terms of transactions with entities unrelated to the Bank. In several cases, the Bank supported banking subsidiaries, according to common practice, through investment in capital, loans, letters of comfort, etc.

## Note 34 Condensed Financial Statements of the Bank

NIS millions

### A. Condensed statement of profit and loss[1]

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Interest income | **11,571** | 10,433 | 9,695 |
| Interest expenses | **(2,748)** | (2,151) | (1,945) |
| Net interest income | **8,823** | 8,282 | 7,750 |
| Provision for credit losses | **570** | 205 | 184 |
| Net interest income after provision for credit losses | **8,253** | 8,077 | 7,566 |
| | | | |
| **Non-interest income** | | | |
| Non-interest financing income (expenses) | **1,036** | 553 | 1,052 |
| Fees | **3,124** | *3,086 | *3,245 |
| Other income | **51** | 138 | 91 |
| Total non-interest income | **4,211** | *3,777 | *4,388 |
| | | | |
| **Operating and other expenses** | | | |
| Salaries and related expenses | **3,862** | **3,918 | **3,889 |
| Maintenance and depreciation of buildings and equipment | **1,342** | 1,291 | 1,343 |
| Other expenses | **2,273** | **,*2,146 | **,*2,037 |
| Total operating and other expenses | **7,477** | *7,355 | *7,269 |
| Profit from continued operations before taxes | **4,987** | 4,499 | 4,685 |
| Provision for taxes on profit from continued operations | **1,937** | 1,883 | 2,120 |
| Profit from continued operations after taxes | **3,050** | 2,616 | 2,565 |
| Share of the Bank in profits of affiliates, after taxes, attributed to a discontinued operation | **364** | 314 | 274 |
| Share of the Bank in other affiliates | **(819)** | (270) | (211) |
| Net profit: | | | |
| Attributed to shareholders of the Bank | **2,595** | 2,660 | 2,628 |

* Reclassified. Expenses in respect of insurance for Sale Law guarantees are stated as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item.

** Pursuant to the directives of the Bank of Israel, certain actuarial cost components of employee benefits were reclassified from salary expenses to other expenses. For further details, see Note 1D(3).

(1) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations, including restatement of comparative figures. For details, see Note 1G.

## Note 34 Condensed Financial Statements of the Bank (continued)

NIS millions

### B. Condensed balance sheet[1]

| | December 31 | |
|---|---|---|
| | **2018** | 2017 |
| **Assets** | | |
| Cash and deposits with banks | **85,024** | 84,079 |
| Securities | **47,582** | 57,054 |
| Securities borrowed or purchased under agreements to resell | **708** | 684 |
| Credit to the public | **287,061** | 262,544 |
| Allowance for credit losses | **(3,685)** | (3,598) |
| Net credit to the public | **283,376** | 258,946 |
| Credit to governments | **2,428** | 2,292 |
| Investment in a discontinued operation | **3,431** | 3,064 |
| Investments in other affiliates | **12,728** | 13,717 |
| Buildings and equipment | **2,906** | 2,904 |
| Assets in respect of derivative instruments | **10,365** | 11,876 |
| Other assets | **5,342** | 4,929 |
| Total assets | **453,890** | 439,545 |
| | | |
| **Liabilities and capital** | | |
| Deposits from the public | **370,227** | 362,447 |
| Deposits from banks | **4,409** | 4,031 |
| Deposits from the government | **208** | 320 |
| Subordinated notes | **15,261** | 14,718 |
| Liabilities in respect of derivative instruments | **9,506** | 11,944 |
| Other liabilities | **16,735** | 10,222 |
| Total liabilities | **416,346** | 403,682 |
| Capital | **37,544** | 35,863 |
| Total liabilities and capital | **453,890** | 439,545 |

(1) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations, including restatement of comparative figures. For details, see Note 1G.

## Note 34 Condensed Financial Statements of the Bank (continued)

NIS millions

### C. Condensed statement of cash flows

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| **Cash flows from (for) operating activity** | | | |
| Net profit for the year | **2,595** | 2,660 | 2,628 |
| **Adjustments necessary to present cash flows from operating activity** | | | |
| The Bank's share in profits of affiliates | **453** | (44) | (63) |
| Depreciation of buildings and equipment | **532** | 481 | 527 |
| Amortizations | **20** | 21 | 24 |
| Provision for credit losses | **570** | 205 | 184 |
| Gain from realization of securities available for sale and held to maturity | **(213)** | (115) | (384) |
| Realized and unrealized gain from adjustments to fair value of securities held for trading | **(26)** | (14) | 5 |
| Gain from realization of buildings and equipment | **(28)** | (39) | (8) |
| Change in benefit due to share-based payment transactions | **(37)** | (4) | 98 |
| Net change in liabilities in respect of employee benefits | **(30)** | (33) | (159) |
| Deferred taxes, net | **(21)** | 27 | 269 |
| Gain from sale of credit portfolios | **(56)** | (5) | (93) |
| Adjustments in respect of exchange-rate differences | **(453)** | 1,880 | 250 |
| Accumulation differentials included in investing and financing activities | **(2,221)** | 1,428 | 818 |
| **Net change in current assets** | | | |
| Assets in respect of derivative instruments | **1,511** | (245) | 937 |
| Securities held for trading | **(1,135)** | 3,499 | (2,179) |
| Other assets | **(322)** | 85 | 457 |
| **Net change in current liabilities** | | | |
| Liabilities in respect of derivative instruments | **(2,491)** | (424) | (1,072) |
| Other liabilities | **6,978** | 1,247 | 19 |
| Net cash from (for) operating activity | **5,626** | 10,610 | 2,258 |

## Note 34 Condensed Financial Statements of the Bank (continued)

NIS millions

### C. Condensed statement of cash flows (continued)

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| **Cash flows for investing activity** | | | |
| Deposits with banks | **(511)** | (80) | (45) |
| Credit to the public | **(17,200)** | *(4,095) | 4,011 |
| Credit to governments | **(136)** | 212 | (136) |
| Securities borrowed or purchased under agreements to resell | **(24)** | (309) | (256) |
| Acquisition of bonds held to maturity | **-** | (130) | (7) |
| Proceeds from redemption of bonds held to maturity | **35** | 131 | 12 |
| Acquisition of securities available for sale | **(29,639)** | (36,227) | (36,039) |
| Proceeds from sale of securities available for sale | **32,407** | 10,945 | 12,819 |
| Proceeds from redemption of securities available for sale | **9,821** | 26,735 | 14,993 |
| Acquisition of credit portfolios | **(8,165)** | *(6,096) | (5,177) |
| Proceeds from sale of credit portfolios | **382** | 140 | 4,324 |
| Dividends received from affiliates | **97** | 251 | 67 |
| Investments in affiliates | **(183)** | - | (566) |
| Consideration from realization of investments in affiliates | **2** | - | - |
| Acquisition of buildings and equipment | **(552)** | (571) | (500) |
| Proceeds from realization of buildings and equipment | **46** | 66 | 14 |
| Net cash for investing activity | **(13,620)** | (9,028) | (6,486) |
| | | | |
| **Cash flows from (for) financing activity** | | | |
| Deposits from banks | **378** | (27) | (448) |
| Deposits from the public | **7,780** | 12,628 | 22,745 |
| Deposits from the government | **(112)** | (25) | (9) |
| Issuance of bonds and subordinated notes | **1,799** | - | (17) |
| Redemption of bonds and subordinated notes | **(1,349)** | (2,561) | (3,034) |
| Issuance of shares and options | **-** | - | 5 |
| Dividend paid to shareholders of the Bank | **(496)** | (861) | (685) |
| Buyback of shares | **(24)** | (39) | (27) |
| Net cash from (for) financing activity | **7,976** | 9,115 | 18,530 |
| Increase (decrease) in cash | **(18)** | 10,697 | 14,302 |
| Balance of cash at beginning of year | **80,806** | 71,989 | 57,937 |
| Effect of changes in exchange rates on cash balances | **453** | (1,880) | (250) |
| Balance of cash at end of year | **81,241** | 80,806 | 71,989 |
| | | | |
| **Interest and taxes paid and/or received** | | | |
| Interest received | **11,238** | 10,921 | 12,256 |
| Interest paid | **(2,741)** | (2,497) | (2,650) |
| Dividends received | **17** | 220 | 2 |
| Income tax paid | **(2,374)** | (1,321) | (1,791) |
| Income tax received | **196** | 157 | 11 |

* Reclassified.

# Note 35 Regulatory Initiatives

## Regulatory reforms for increased competition in the banking system

Several regulatory initiatives have been formulated over the last few years, with the primary aim of increasing competition in the banking system in Israel; several additional regulatory initiatives are in the process of being generated.

## Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel

The Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments), 2017, was published in January 2017, on the basis of the report of the public committee appointed by the Minister of Finance and the Governor of the Bank of Israel (the Strum Committee).

- The credit-card companies will be separated from the two large banks (the Bank and Bank Leumi) within three years of January 2017. The sale period will be extended to four years if the Bank issues at least 25% of the credit-card companies under its ownership within three years and also falls to a holding rate of 40%.
- Beginning in July 2018, the banks are required to transfer daily current-account balances to financial entities to be approved, subject to approval by the customer. Bank Hapoalim is prepared for the implementation of this directive.
- The Bank is obligated to allow the transfer of information regarding customers' accounts to third parties providing customers with consulting, cost comparison, and financial information summation services. Such transfer shall be subject to the customer's approval, and shall be performed using open API. Draft directives on this matter have not yet been released, but the Bank of Israel has issued a schedule to be implemented by the steering committee of the project.
- Beginning in February 2020, the Bank will be required to present detailed information to its customers, on its website, regarding transactions executed by the customers using non-bank credit cards. An amendment to Proper Conduct of Banking Business Directive 470, issued in November 2018, contains directives regarding the manner of presentation of the information.
- As part of the infant competitor protections for the credit-card companies, the Bank will be required to reduce its credit facilities by 50%, relative to the credit facilities it allocated in 2015, by February 2021. Subsequently, the Bank will not be permitted to enlarge its credit facilities for three additional years.
- The Bank will be required to sell holdings in ABS (Automatic Bank Services Ltd., an operator of technological systems that allow, among other things, transfers of approvals for transactions in charge cards and transfers of approvals for cash-withdrawal transactions). The Bank currently holds 34.5% of ABS, and will be required to sell holdings exceeding 10% within four years; voting rights in respect of such holdings above the noted rate are dormant as of June 1, 2017. The Bank is examining ways of selling its holdings, in accordance with the directives of the law, including through a sale offering of shares to the public in a prospectus to be published by ABS.
- The implementation committee appointed after the enactment of the law is required to report to the Knesset periodically on the condition of competition in the credit market. The Bank of Israel has started to collect data in order to determine average prices of credit in the market, for the purpose of comparison and presentation to the committee, as part of the indicators to be used to assess the condition of competition in the credit market.

The Bank is preparing to implement this law in accordance with the established schedule. For additional details regarding the Bank's preparations for separation from the Isracard Group, see Section 2.6.1, above.

## Note 35 Regulatory Initiatives (continued)

### Parliamentary Inquiry Committee on the Allocation of Credit to Large Borrowers

In July 2017, the Knesset resolved to establish a parliamentary inquiry committee, headed by MK Eitan Cabel, to examine credit allocation in the economy and debt arrangements. The committee will examine the conduct of the Bank of Israel, the Banking Supervision Department, the banks, institutional entities, insurance companies, and the various types of credit providers; draw conclusions; and present its recommendations on this subject.

The CEO of the Bank and the Chairman of the Board of Directors appeared before the committee on October 21, 2018. Prior to the meeting, the Bank received a demand to submit documents to the committee concerning credit to large borrowers. In the meeting, the Bank submitted data to the committee pertaining to the performance of the Bank's credit portfolio, the mix of the portfolio over the years, and the way in which the Bank copes with customers experiencing financial difficulties. The heads of the Bank also answered the questions of the Members of Knesset. The heads of the Bank expressed their willingness to cooperate with the committee and submit additional documents to the committee pertaining to aggregate data and to the policies and procedures of the Bank, in a manner that does not cause damage to the commercial assets of the Bank, to the duty of banking secrecy towards customers, and to the privilege established by law and applicable to the contents of the reports of the Banking Supervision Department. The committee completed its work in January 2019, and is expected to publish its conclusions and recommendations after the hearings are completed.

### Law for Online Bank Account Switching

The law for the establishment of an automatic bank account switching system, based on the CASS (Current Account Switch Service) established in England, was passed by the Knesset in February 2018, as part of the economic plan (the Arrangements Law) for 2018. According to the law, banks will be required to allow secure online transfers for customers, within seven business days, at no cost to the customer. The law will take effect in February 2021, with the option for an extension of one additional year. Since the publication of this bill, meetings of the committee for implementation of the law have been held at the Bank of Israel. It has been decided that Masav (the Bank Clearing Center) will manage the project. The company has presented a schedule for implementation to the Banking Supervision Department and to all of the member banks.

In November 2018, the Governor of the Bank of Israel issued initial rules pursuant to the law, concerning the types of accounts for which the banks will be required to allow switching within the system. Among other matters, it has been established that it will not be possible to use the system for the transfer of trust accounts, guardianship accounts, or accounts managed by an estate manager. It was further determined that the use of the system is intended for accounts in which the composition of account owners remains identical, whether the transfer is from the account of an individual to an individual, or from partners to partners. According to the data of the Bank of Israel, approximately 80% of current accounts of households will be transferable using the system.

A draft of additional regulations concerning the types of products that will be transferable using the system – standing orders, checks, etc. – is expected to be issued in the coming weeks.

## Note 35 Regulatory Initiatives (continued)

### Payment Services Reform

The reform in payment services is the result of a report by the Interministerial Committee for Improvement of the Use of Advanced Means of Payment, which consisted of participants from the Ministry of Finance, the Bank of Israel, the Ministry of Justice, and more.

The Payment Services Law was published in January 2019.

This is a consumer-protection law slated to replace the Charge Card Law; in essence, it will cause consumer protections previously restricted to cards to also apply to traditional means of payments at banks, such as transfers from accounts and authorizations to debit accounts. The proposal also applies these protections to innovative means of payment such as payment applications, electronic wallets, and more. The arrangement established in the law relies, among other sources, on the principles of the PSD2 directive, which took effect in Europe in May 2018, and on arrangements established in the Charge Card Law. The law establishes the duties of payment service providers to beneficiaries and payers, the nature of the contract that payment service providers are required to present, arrangements concerning liability for the payment transaction and for abuses, and more.

Another memorandum of law on this subject, establishing the duties that apply to an applicant seeking to obtain a license and serve as a payment service provider, was released for comments from the public in August 2018, and is expected to be discussed by the next Knesset.

### Additional matters

- The Credit Data Law, published on April 12, 2016, establishes an arrangement for sharing of credit data, which includes the collection of credit data from the sources of information established in the law (including banks, credit-card companies, and institutional entities); retention of the data in a central database operated by the Bank of Israel; and delivery of credit data from the database to credit bureaus for processing and transfer, to credit providers, among others, with the aim of increasing competition in the retail credit market. The Credit Data Law was scheduled to take effect in October 2018. Due to delays in the operation of the database, the Bank of Israel requested a postponement of the inception of the law, to April 2019, when it is currently expected that the credit database will begin to operate. The Ministry of Justice also issued a memorandum amending the law in December 2018. Pursuant to the memorandum, in light of the fact that during the period of preparation for the establishment of the database and implementation of the law, it was found that the sharp transition between the laws creates a high risk of significant damage to interested parties in the credit data system, which may also result in harm to customers seeking credit, it will be determined, among other matters, that anyone who holds a credit data services license pursuant to the Credit Data Services Law on the day preceding the inception date will be permitted to continue to operate a credit data service, as defined in the aforesaid law, for a period of twelve months from the inception date. The memorandum further states that the Minister of Justice, with the consent of the Governor, is authorized to extend the aforesaid period through an order, for an additional period, provided that the total period does not exceed eighteen months from the inception date. The memorandum has not yet been presented to be passed by the Knesset, as it was submitted shortly prior to the dispersal of the Knesset.
- In November 2018, the Antitrust Authority, in collaboration with the Israel Securities Authority, issued a draft report on the brokerage market in Israel containing recommendations regarding arrangements in this area, the removal of barriers, and the transfer of investment portfolios between banks and non-bank exchange members.

## Note 35 Regulatory Initiatives (continued)

### Material directives and initiatives in 2018

- Private legislation to benefit mortgage takers –
  - Amendment 30 to the Banking Law (Service to Customers), published in January 2019, concerns the deferral of payment of a customer's housing loan under special circumstances. The law states that banks (and non-bank entities, if they sell mortgages in the future) must allow customers to choose a loan track in which they will be permitted to defer payments on a housing loan in the event of unemployment, illness, childbirth, or injury.
  - Amendment 31 to the Banking Law (Service to Customers), which concerns the deferral of mortgage payments due to the death of a borrower, was published in the Official Gazette of the Israeli Government in January 2019. Pursuant to the amendment to the law, in the event of the death of a borrower, at the request of the person obligated to repay the loan, the bank must defer the mortgage payments, for a period not to exceed twelve months, at no cost and without charging arrears interest.
- Amendment of competition laws – Amendment 21 to the Restrictive Trade Practices Law was published in January 2019. According to the amendment to the law, the Authority (which will henceforth be known as the Competition Authority) will be able to declare that a company is a monopoly even if its market share is lower than 50%, if it believes that the company possesses significant market power. In addition, the ceiling on monetary sanctions which the Authority is authorized to impose on corporations that break the law will rise from NIS 24 million to NIS 100 million.
- Reduction of the interchange fee – In November 2018, the Banking Supervision Department issued the Banking Order (Service to Customers) (Supervision of Cross-Clearing Services for Charge Card Transactions and Immediate Debit Transactions), which applies the trajectory announced by the Bank of Israel in February 2018 for the reduction of the interchange fee. According to this trajectory, the fee for credit cards will decrease from 0.7% to 0.5% in five increments, with the first reduction scheduled for January 2019 and the last for January 2023. The Supervisor has also determined that the interchange fee in immediate debit transactions will decrease from 0.3% to 0.25%, in two increments, beginning in January 2021 and ending in January 2023.
- Postponement of Fair Credit Law – in November 2018, the Knesset plenum passed the proposal to postpone the inception of the Fair Credit Law, which was scheduled to take effect on November 9, 2018. According to the Amendment to the Non-Bank Loan Regulation Law (Amendment 5) (Postponement of Inception), the inception of the law will be postponed to six months from the date of publication of the first regulations or November 9, 2019, whichever is earlier.
- In October 2018, the Banking Supervision Department released an advanced draft amending Proper Conduct of Banking Business Directive 325, concerning the management of credit facilities. The existing directive applies only to credit facilities in current accounts. The proposal would also apply the directive to credit facilities granted to customers through credit cards. In addition, a requirement has been established to set up mechanisms to alert customers of utilization of the credit facilities, and to notify customers of utilization of over 90% of a credit facility.

## Note 35 Regulatory Initiatives (continued)

- Mandatory transfer of small businesses to a fixed fee track – In October 2018, the Banking Supervision Department issued an amendment to the rules concerning fees, requiring banks to identify small businesses that could derive savings from a transition to a fixed-rate current account fee track, and to proactively register the businesses for the track. This measure follows the directive of the Banking Supervision Department of November 2017, which required banks to send all small businesses a letter notifying them of the amount of savings they would obtain if they transferred to the fee track best suited to them. The amendment is scheduled to take effect at the beginning of 2019.
- Consumer reliefs in housing loans – In October 2018, the Banking Supervision Department issued an amendment to Proper Conduct of Banking Business Directive 451 concerning housing loans. Pursuant to the amendment, customers are to be directed to obtain a property valuation as early as the in-principle approval stage. Banks will also be required to accept a valuation prepared for another bank, provided that 90 days have not elapsed since the valuation was prepared; the bank retains the option of a reasonable refusal in exceptional cases.
  With regard to early repayment, banks will be required to present up-to-date information, on their website or mobile application, necessary in order for borrowers to examine the worthwhileness of early payment of their mortgage. In addition, banks will be required to provide a borrower with confirmation for the insurance company, in which the bank approves reduction of the amount of the lien in favor of the bank, according to the repayment of the loan (or removal of the lien in the event of full repayment).
- Regulation of outsourcing – In October 2018, the Bank of Israel issued a circular concerning the conduct of banks with regard to outsourcing. The circular establishes principles according to which banks are required to act when outsourcing activities, with the aim of reducing their exposure to the resulting risks. The directive specifies the definition of an outsourcing service provider, the responsibility of the bank and of auditing, and the appropriateness of the contract with the supplier. The directive imposes a supervisory burden on the bank with regard to its suppliers. Concurrently, with regard to the referral of customers to receive credit, it has been determined that such activity will be permitted to begin only after the activation of a credit data repository, and subject to specific supervisory clarification on this matter.
- State encouragement of reliefs with respect to the costs of establishment of new banks – In September 2018, the Ministry of Finance issued rules for grants to be given for the establishment of a central IT bureau. The Ministry of Finance will provide grants to an IT services supplier, to be selected, for the establishment of IT infrastructures and provision of comprehensive banking IT services to financial entities. According to the rules, the maximum amount of the grant to the entity that establishes the IT bureau is NIS 200 million (depending on the identity and number of users of the service), and the condition for receiving the grant is a contractual agreement between the proposing entity and a bank or credit association. The amount for an existing bank added to the service is NIS 30 million, and the amount for the first new bank added to the service is NIS 90 million. A prerequisite for receiving the grant is at least one signed contract between the IT services provider and an existing or new bank. In addition, milestones have been established for receiving the grant, which depend not only on the IT services provider but also on the actions of the financial entity benefiting from the service. The relief in costs is in addition to the special licensing track for the establishment of new banks announced by the Bank of Israel in June 2018, and the reliefs with respect to capital which will be granted to credit-card companies that seek to become banks.

## Note 35 Regulatory Initiatives (continued)

- Reporting on fees for securities activity – The Stock Exchange Structure Change Law, passed by the Knesset in April 2017, establishes duties of reporting to the stock exchange, beginning in July 2018, on fees collected by exchange members and clearing-house members from their customers, including trading fees and clearing fees, and on any change in such fees. The fee calculator on the website of the stock exchange became operational in August 2018; it is now possible to perform comparisons of securities activity fee prices among different market players.
- Human response on telephone within six minutes – In July 2018, the Knesset passed an amendment to the Consumer Protection Law requiring that in telephone response services via automated call-routing systems, banks offer consumers a response by a professional, human representative within a wait time not to exceed six minutes. Pursuant to the law, the possibility of a professional human response by a service representative must be granted for services of the following types: handling of malfunctions, account inquiries, and termination of a contractual engagement. The law allows a preparation period of one year, and takes effect in July 2019. Pursuant to draft directives of the Banking Supervision Department issued in January 2019, which apply the authority granted to the Banking Supervision Department in the law, pursuant to which the banks will be permitted to deviate from the wait time established in the law, it has been determined that the law will apply to 85% of the calls in a calendar month, on annual average. The draft directive also includes a requirement to grant precedence in line to senior citizens and people with disabilities, and requirements for monitoring and supervision of patterns of response to customers at the call center.
- Simplification of agreements – Pursuant to Banking Supervision Department issued Proper Conduct of Banking Business Directive 449, "Simplification of Agreements for Customers," published in July 2018, among other matters, banking corporations must present, in summarized form, on the first page of a loan agreement and of an agreement regarding a credit facility in a credit card, the variable and material details and terms of the specific contractual engagement. The need for simplification of credit-granting agreements is also aligned with the Fair Credit Law.
- Privacy protection regulations – The Privacy Protection Regulations (Information Security), 2017, took effect in May 2018. The regulations specify the manner of implementation of the information-security duty applicable to any manager or holder of a "database," as defined in the Privacy Protection Law, 1981 (the "Privacy Protection Law"). The regulations establish a broad and comprehensive arrangement for the physical and logical protection of databases and for the management thereof, according to the type of database, as detailed in the regulations. The company has prepared to implement the regulations, including the various aspects thereof.
- Daily clearing – In April 2018, within the terms for approval of the restrictive arrangement for cross-clearing between credit-card companies, the Antitrust Authority stated that the companies would be required to transition to daily clearing for businesses, beginning in July 2021.

## Note 35 Regulatory Initiatives (continued)

- Relief in bankruptcy and insolvency processes – In March 2018, the Knesset passed the Insolvency and Economic Rehabilitation Law, which regularizes insolvency law for individuals and corporations in a new, comprehensive law, replacing a series of items of legislation that applied to this matter prior to the enactment of this law. The directives of the law are expected to impair the ability of the Bank to collect its debts, with respect to both business and private customers. This law will take effect in September 2019. Thus, for example, the law transfers part of the precedence granted to holders of floating liens (usually banks), in favor of general unsecured creditors (usually suppliers or customers). In this context, it has been determined that the entitlement of secured creditors with a floating lien to collect their debt in full will be limited, such that the percentage of the debt collectible using the floating lien in their favor stands at only 75% of the secured debt, while the remainder of their debt is repaid as a general unsecured debt. In addition, the law restricts the ability of banks to redeem the lien with regard to the component of arrears interest. For individuals, the law eases and simplifies procedures for bankruptcy and discharges, determining that instead of separate proceedings for discharge and bankruptcy, the discharge will become an integral part of the process; thus, under ordinary conditions, debtors will receive a discharge within four years, and some debtors will actually receive a discharge within one year. The court authorized to manage this process will be transferred from the District Magistrate Court, with a substantial part of insolvency proceedings for individuals moving to management by an administrative unit of the Official Receiver. The Bank is preparing for implementation of the law. Eight sets of regulations pursuant to this law were issued in November 2018 to January 2019. Among other matters, the regulations concern creditor meetings, the report on findings of an examination, inquiries with the debtor, and more.
- Digital banking – In January 2018, the Banking Supervision Department issued an amendment of Proper Conduct of Banking Business Directive 367, "Digital Banking," which, among other matters, regulates the method of transferring information regarding the balance in a current account from a banking corporation to a financial entity, further to the directives of the Strum Law. In March 2018, the Banking Supervision Department issued an amendment of this directive, which, among other matters, grants reliefs for opening an online account, including cancellation of the requirement for a bank transfer during the process of opening a loan account online.

These regulatory initiatives have an adverse effect on the income and expenses of the Bank, and may have an adverse effect on the business of the Bank Group in the future. At this stage, the Bank is reviewing the overall implications of the foregoing for the Bank's income, as well as additional long-term business and operational implications. These effects cannot be quantified at this stage, and depend on customers' behavior, additional regulatory changes, and the activity of competitors, among other factors.

# Bank Hapoalim

Corporate Governance,
Additional Information
and Appendices

2018

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## 6. Corporate governance

### 6.1. The Board of Directors and the Board of Management

#### Members of the Board of Directors of the Bank*

| | |
|---|---|
| **Oded Eran** | Chairman of the Board |
| **Ronit Abramson-Rokach** | External director pursuant to the Companies Law |
| **Dalia Lev** | External director pursuant to the Companies Law |
| **Yacov Peer** | External director pursuant to Directive 301 |
| **Moshe Koren** | Director |
| **Reuven Krupik** | External director pursuant to Directive 301 |
| **Richard Kaplan** | Director |

The following directors also served during the reported period:

| | |
|---|---|
| **Amnon Dick** | Served as an external director pursuant to Directive 301 until April 28, 2018. |
| **Meir Wietchner** | Served as a director until September 4, 2018. |
| **Imri Tov** | Served as an external director pursuant to the Companies Law until February 4, 2018. |
| **Efrat Peled** | Served as a director until September 4, 2018. |
| **Dafna Schwartz** | Served as an external director pursuant to the Companies Law until April 5, 2018. |
| **Ido Stern** | Served as a director until September 4, 2018. |

#### Activity of the Board of Directors

53 meetings of the Board of Directors of the Bank in plenary session and 103 meetings of the committees of the Board of Directors were held in the course of 2018.

During the course of 2018, the Board of Directors of the Bank resolved, after examining the committees of the Board of Directors and the composition of the committees in relation to the strategy of the Bank and the characteristics of its activity, to carry out changes in the committees of the Board of Directors and in their areas of authority. The changes include dissolution and consolidation of committees, including the dissolution of the Finance and Prospectus Committee, such that the financial statements of the Bank continue to be discussed by the Audit Committee prior to presentation for approval by the Board of Directors, and dissolution of the Remuneration Committee in expanded format, so that matters that were under its authority (remuneration of all employees of the Bank, except officers and "key employees") are discussed by the Remuneration Committee, in addition to other changes performed in February 2018 and described in the Annual Report for 2017. Consequently, at the date of publication of the report, seven permanent committees of the Board of Directors are in operation (compared with thirteen committees during 2017): Audit, Remuneration, Risk Management and Control, Strategy and Business Development, Credit, Corporate Governance and Stakeholders, and Information Technology and Technological Innovation.

* For additional details regarding the members of the Board of Directors of the Bank, their education, occupations, and experience (including the accounting and financial expertise of some of the directors), the committees of the Board of Directors on which they serve, additional corporations at which they serve, and more, see Standard 26 of the Periodic Report and the Magna website of the Israel Securities Authority: http://www.magna.isa.gov.il.

An update of Proper Conduct of Banking Business Directive 301, "Board of Directors," was issued in November 2018. The update states, among other matters, that the Board of Directors must appoint a committee on information technology and technological innovation, the duties of which are detailed in the directive, and that the Board of Directors must establish policy regarding the maximum term of services of committee chairs. Following the aforesaid update, the name, duties, and charter of the Information Technology Committee that had previously existed at the Bank were updated. In addition, a policy was adopted with regard to the maximum term of service of committee chairs, pursuant to which the maximum term of service is up to 4.5 years, and the committee chair can be appointed for an additional term of service of 4.5 years, due to special considerations, by a special majority of members of the Board of Directors.

## Report on directors with accounting and financial expertise

In March 2018, the Board of Directors of the Bank determined that the minimum number of directors with accounting and financial expertise would be three (instead of two prior to this decision), and that the minimum number of directors with accounting and financial expertise who should be members of the Audit Committee was two. This takes into consideration the duties of the Board of Directors of the Bank, and in particular its responsibility for the preparation and approval of the financial statements of the Bank, given the size of the Bank and the complexity of its operations, and the high importance accorded to the functioning of the control functions at the Bank and the supervision thereof.

Based on their education, experience, skills, and knowledge, and as estimated by the Board of Directors, five directors with accounting and financial expertise serve on the Board of Directors of the Bank at the reporting date: Oded Eran, Yacov Peer, Moshe Koren, Dalia Lev, and Reuven Krupik (evaluated as having accounting and financial expertise by the Board of Directors of the Bank in March 2019). For details regarding the education, occupation, and experience of these directors, see Standard 26 of the Periodic Report.

At the date of publication of the report, four directors with accounting and financial expertise serve on the Audit Committee.

## Members of the Board of Management of the Bank*

| | |
|---|---|
| **Ari Pinto** | President and Chief Executive Officer |
| **Yael Almog** | Chief Legal Advisor |
| **Dr. Amir Bachar** | Chief Risk Officer (CRO) |
| **Eti Ben-Zeev** | Head of Information Technology |
| **Yael Dromi** | Head of Stakeholder Relations |
| **Erez Yosef** | Chief Operating Officer (COO); Head of Strategy, Resources, and Operations |
| **Tsahi Cohen** | Head of Corporate Banking |
| **Ofer Levy** | Chief Accountant |
| **Yadin Antebi** | Head of Financial Markets and International Banking |
| **Ofer Koren** | Chief Financial Officer (CFO) |
| **Ronen Stein** | Head of Retail Banking |
| **Golan Scherman** | Head of Innovation |

**Chief Internal Auditor –**

| | |
|---|---|
| **Zeev Hayo** | Head of Internal Audit in Israel and Abroad |

Also served during the reported period:

| | |
|---|---|
| **Jacob Orbach** | Served as a member of the Board of Management and Head of Corporate Banking until February 28, 2018. |
| **Avraham Kochva** | Served as a member of the Board of Management and Head of Innovation until January 31, 2018. |
| **Ilan Mazur** | Served as a member of the Board of Management and Chief Legal Advisor of the Bank until February 28, 2018. |
| **Dan Koller** | Served as a member of the Board of Management and Head of Financial Markets and International Banking until May 29, 2018. |

* For additional details regarding the members of the Board of Management, see Standard 26A of the report and Section 6.6 below, and the Magna website of the Israel Securities Authority: http://www.magna.isa.gov.il.

### 6.2. Internal audit

**Information regarding the Internal Auditor –** Mr. Zeev Hayo, CPA, serves as Chief Internal Auditor of the Bank as of July 14, 2014. Mr. Zeev Hayo, CPA, has worked at the Bank Hapoalim Group since 1990. He is employed full time, with the rank of a Member of the Board of Management. He holds a B.A. degree in Accounting and Economics from Tel Aviv University and has experience in the areas of banking and auditing. Mr. Hayo meets the conditions stipulated in Section 3(A) of the Internal Audit Law, 1992 (hereinafter: the "Internal Audit Law"). The Internal Auditor is not an interested party in the Bank or its subsidiaries, and holds no other office in addition to his position as Chief Internal Auditor of the Bank and Internal Auditor of some of the subsidiaries in the Group, as required under Section 146(B) of the Companies Law and Section 8 of the Internal Audit Law. The appointment and termination of internal audit employees are subject to approval by the Chief Internal Auditor; audit employees receive instructions on audit-related matters only from the Chief Internal Auditor or from internal audit executives authorized by him; in general, internal audit employees do not hold other positions in addition to internal auditing; employees of the Internal Auditor Bureau are authorized to sign, on behalf of the Bank, only documents related to audit work, as required under Proper Conduct of Banking Business Directive 307, "The Internal Audit Function."

**Appointment method –** The appointment of the Internal Auditor was approved by the Board of Directors of the Bank on July 14, 2014, following the recommendation and approval of the Audit Committee on July 14, 2014, which cited considerations including his professional qualifications, personal qualities, education, and experience, including experience in the area of auditing.

**Superior officer of the Internal Auditor –** The Chief Internal Auditor reports organizationally to the Chairman of the Board of Directors.

**Work plan –** Internal auditing is conducted in accordance with an annual work plan and a three-year long-term work plan. The work plan for 2018 was derived from the multi-year plan, which is based on the following, among other matters: risk assessment at audited units; an operational risk survey; the current organizational structure of the Bank; audit rounds at various units; and findings discovered in previous audits. In order to formulate the work plan, the audit team held discussions and consultations with the Bank's senior managers and other management functions, as well as the external auditors. The audit work plan at the Bank's subsidiaries was established in a similar manner; the Bank's Internal Audit unit provides auditing services to most subsidiaries.

The audit work plan also includes examination of the approval processes of material transactions, all based on a comprehensive perspective focusing on risks.

Following the formulation of the audit work plan by Internal Audit, the plan was submitted for discussion by the Audit Committee; subsequently, taking the committee's recommendations into consideration, the plan was discussed and approved by the Board of Directors.

The Chief Internal Auditor has the discretion to diverge from the work plan in response to changing, unexpected needs. Among other matters, the work plan includes resource allocation for audits of special events and unplanned audits, including audits by demand of authorized parties, such as the Board of Directors, the Audit Committee, Bank management officials, and regulators. Material changes to the work plan are discussed and approved by the Audit Committee and by the Board of Directors.

The Internal Audit work plan also addresses the Bank's activity overseas through branches and representative offices, and the Bank's subsidiaries in Israel and abroad. The principal subsidiaries overseas have local internal auditors (Hapoalim Switzerland, which also supplies internal-auditing services to Banque Hapoalim Luxembourg, and Pozitif have separate local full-time internal auditors; auditing at HSU is performed by the local auditor at the New York branch, at a volume of approximately one-quarter of an employee position). Internal Audit in Israel performs controls to ensure that the internal auditing is executed at an adequate professional level, as required under Proper Conduct of Banking Business Directive 307, "The Internal Audit Function." In general, subsidiaries in Israel, including companies in the Isracard Group (see below), receive internal audit services from Internal Audit at the Bank.

Note that as part of the preparations for separation of the Isracard Group from Bank Hapoalim, following the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments), 2017, a new internal auditor was appointed for Isracard in May 2018, replacing Mr. Zeev Hayo, and the company began to prepare to establish an independent audit unit. The extent of resources required by the audit unit at Isracard and its multi-annual work plan will be determined based on the results of a risk survey being performed by the company's new auditor. The audit plan of Isracard for 2019 will be carried out by the company's new auditor, among other means, through the Internal Audit employees of Bank Hapoalim (estimated at 260 work days), until the date of the sale of Isracard or until it becomes a public company. After that date, internal-audit employees of Bank Hapoalim will not provide services to Isracard.

**Manpower –** The number of positions in Internal Audit was determined in accordance with the multi-year work plan, based on a risk survey. The Internal Audit team at the Bank, its subsidiaries, and its overseas offices numbered an average of approximately 127 employee positions and 4 outsourced positions in 2018, as detailed below.

Table 6-1: Average number of positions of Internal Audit staff

| | **Average number of employee positions in 2018** | | |
|---|---|---|---|
| | Bank | Subsidiaries | Total |
| Activity in Israel | **106** | **5** | **111** |
| Activity abroad | **8** | **8** | **16** |
| Total | **114** | **13** | **127** |

In addition, approximately 4 positions were invested in outsourcing.

**Performing audits –** Internal Audit at the Bank operates under laws; regulations; directives and guidelines of the Supervisor of Banks, including Proper Conduct of Banking Business Directive 307, "The Internal Audit Function"; professional standards; professional guidelines of the Institute of Internal Auditors in Israel; and guidelines of the Audit Committee and of the Board of Directors.

Having examined the Internal Audit work plan and the actual execution of said plan, the Board of Directors and the Audit Committee believe that the Bank's internal auditing complies with the requirements established in the professional standards and in the directives of the Supervisor of Banks.

**Access to information –** Internal Audit has unrestricted access to all information at the Bank, including continuous unmediated access to the Bank's information systems, including financial data, as necessary to perform its duties.

This authority is anchored in the audit charter and procedures. This policy is in place in the Bank's activity in Israel and abroad and at its subsidiaries.

**Internal Auditor's report –** Internal audit reports, including periodic reports, are submitted in writing.

A list of all audit reports published during the preceding month is presented to the Board of Directors' Audit Committee each month, after being submitted to the Chairperson of the Audit Committee.

Audit reports are presented to the Chairman of the Board of Directors, the Chairperson of the Audit Committee, and the CEO of the Bank. The reports are also distributed to the members of the Audit Committee and to the members of the Board of Management. Substantial audit reports are discussed by the Audit Committee each month. In 2018, semiannual and annual summaries were presented to the Board of Directors' Audit Committee and discussed by the committee, reviewing internal audit activities during the reported period. A summary of audit activities for 2017 was submitted on March 14, 2018, and discussed by the Audit Committee on March 19, 2018. A summary of audit activities in the first half of 2018 was submitted on August 26, 2018, and discussed by the Audit Committee on September 3, 2018. A summary of audit activities in 2018 will be discussed by the Audit Committee at the beginning of the second quarter of 2019.

**Evaluation of the activity of the Internal Auditor by the Board of Directors –** In the opinion of the Board of Directors and of the Audit Committee, the volume, nature, continuity of activity, and work plan of Internal Audit are reasonable under the circumstances, and are sufficient to realize the Bank's internal auditing objectives.

**Remuneration –** Details of the salary, compensation, value of benefits, and employer payments and contributions for the Chief Internal Auditor, paid, or in respect of which a provision was recorded, in 2018: salary in the amount of NIS 1,578 thousand; a bonus in the amount of NIS 458 thousand; a benefit in respect of share-based payment in the amount of NIS 337 thousand; value of additional benefits in the amount of NIS 96 thousand; and employer provision payments in the amount of NIS (619) thousand. Total remuneration pursuant to Regulation 21 amounted to NIS 1,850 thousand. Total salaries and related expenses pursuant to the Remuneration Limit Law amounted to NIS 2,520 thousand. The balance of loans granted with ordinary terms amounted to NIS 51 thousand.

The Internal Auditor has holdings at a negligible rate (approximately 0.01%) in shares of the Bank (96,233 shares) and in rights to receive shares of the Bank (approximately 0.01%) received within an equity compensation plan for senior executives of the Bank, which are not such that would influence the quality of his work.

The salary, salary terms, and terms of employment of the Internal Auditor are approved by the Remuneration Committee and by the Board of Directors, based on the recommendation of the Audit Committee. The remuneration of the Auditor is appropriate to his office and based on the prevalent principles also used for the remuneration of the members of the Board of Management (defined as control functions). In the opinion of the Board of Directors, the remuneration of the Internal Auditor is not such that would bias his professional judgment.

### 6.3. Disclosure regarding the procedure for approval of the financial statements

The Board of Directors of the Bank is the organ charged with overarching control at the Bank, and with the approval of its financial statements. The Audit Committee of the Board of Directors discusses and examines the drafts of the financial statements presented to it and makes a recommendation to the Board of Directors with regard to the approval of the financial statements. The Audit Committee received reports and held discussions regarding deficiencies and material weaknesses in internal control over the financial statements, if and as found, and received reports of any fraud, whether material or immaterial, if and inasmuch as any existed, in which the Board of Management is involved, or in which other employees are involved who take part in the Bank's internal control over financial reporting. The Audit Committee examined the material issues and critical estimates applied in the financial statements; the reasonableness of the data; the accounting policies applied and the changes thereto, if any; and the accounting treatment applied to material matters. The committee also examined the implementation of the due-disclosure principle in the financial statements and in the accompanying information, through detailed presentation of the issues by officers and others at the Bank, including the Chief Executive Officer, the Chief Financial Officer, and the Chief Accountant, and examined the effectiveness of the internal control over financial reporting.

As part of the discussion of the financial statements, the Audit Committee discussed, among other matters, the problematic debts of the Bank, examined the value of the Bank's holdings in securities, and discussed the provision for other-than-temporary impairment of securities and provision for credit losses of the Bank. In addition, the Audit Committee discussed and examined the Bank's exposures to risks and the reflection and impact of such risks on the financial statements.

The Bank's external auditors, Ziv Haft CPA (Isr.) and Somekh Chaikin CPA (Isr.), are invited to the meetings of the Audit Committee and of the Board of Directors in which the financial statements are discussed and approved, and they attend all such meetings. The Bank's Internal Auditor is invited to the discussions of the Audit Committee and the Board of Directors regarding the approval of the financial statements.

For additional information regarding the procedure for the approval of the financial statements, see the Corporate Governance Questionnaire, Sections 25, 26, and 27.

## 6.4. Remuneration of auditors[(1)(2)(3)(8)]

Table 6-2: Remuneration of auditors

| | Consolidated | | Bank | |
|---|---|---|---|---|
| | **2018** | *2017 | **2018** | 2017 |
| | NIS thousands | | | |
| **For auditing activity[(4)]** | | | | |
| Joint auditors | **21,988** | 21,566 | **13,129** | 12,789 |
| **For audit-related services[(5)]** | | | | |
| Joint auditors | **5,352** | 6,794 | **4,939** | 6,197 |
| **For tax services[(6)]** | | | | |
| Joint auditors | **2,832** | 2,453 | **2,268** | 1,985 |
| **For other services[(7)]** | | | | |
| Joint auditors | **5,675** | 3,525 | **959** | 1,555 |
| Total remuneration of auditors | **35,847** | 34,338 | **21,295** | 22,526 |

* Restated.
(1) Report by the Board of Directors to the annual general meeting on the remuneration of auditors for audit activities.
(2) The remuneration of the external auditors includes payments to partnerships and corporations under their control, as well as payments in accordance with the Value Added Tax Law.
(3) Including remuneration paid and accrued remuneration.
(4) Audit of the annual financial statements and review of interim reports, including an audit of the internal control of financial reporting (SOX 404) and a review of the Bank's overseas branches.
(5) Audit-related fees mainly include prospectuses, special approvals, and comfort letters.
(6) Mainly includes tax adjustment reports, tax assessment discussions, and tax consulting in Israel and abroad.
(7) Mainly includes assistance with preparation of the Corporate Social Responsibility Report and consulting on employee remuneration.
(8) The data include balances attributed to a discontinued operation. See Note 1G to the Financial Statements.

## 6.5. Remuneration for interested parties and senior officers

Following the passing of the Financial Corporations Officer Remuneration Law (Special Approval and Non-Deduction of Expenses for Tax Purposes due to Exceptional Remuneration), 2016 (the "Remuneration Limit Law"), the Bank formulated a remuneration policy and a remuneration plan for officers and senior executives (the "Remuneration Policy" and the "2016 Remuneration Plan"), aligned with the directives of the Remuneration Limit Law (for further details, see Notes 22 and 23 to the Financial Statements).

Salaries, compensation, value of benefits, and employer payments and provisions for the senior office-holders of the Bank Group are set out below (in NIS thousands).

Table 6-3: Details of salaries, compensation, value of benefits, employer payments, and provisions for the senior officers of the Bank Group (in NIS thousands)

| | | 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Name | Title | Rate of holdings in the capital of the Bank (%) | Salaries[1] | Bonuses | Benefit in respect of share-based payment | Value of additional benefits[2] | Employer payments and provisions[3] | Total remuneration pursuant to Regulation 21[4] | Total salaries and related expenses based on the Remuneration Limit Law[5] | Loans granted with regular terms |
| Eran Oded | Chairman of the Board of Directors | - | 1,979 | - | 511 | 2 | 348 | 2,840 | 2,543 | 49 |
| Pinto Ari | President and Chief Executive Officer | 0.01 | 2,365 | - | 101 | 2 | (668) | 1,800 | 2,498 | 67 |
| Lerer Orit[7] | Former CEO of Bank Hapoalim Switzerland | - | 2,760 | - | 614 | 869 | 513 | 4,756 | [6]- | 141 |
| Alush Moshe[8] | Deputy CEO of Bank Hapoalim Switzerland | - | 3,482 | - | - | 145 | 436 | 4,063 | [6]- | - |
| Ben-Zeev Eti | Member of the Board of Management | - | 1,578 | 329 | 337 | 92 | 440 | 2,776 | 2,553 | 64 |
| Antebi Yadin | Member of the Board of Management | 0.01 | 1,650 | 366 | 337 | 29 | 366 | 2,748 | 2,553 | 63 |
| Weksler Ron | Isracard Group CEO | - | 1,913 | 366 | - | 43 | 316 | 2,638 | [6]- | 34 |
| Almog Yael | Member of the Board of Management | - | 1,377 | 428 | 298 | 81 | 265 | 2,449 | 2,235 | 27 |
| Scherman Golan | Member of the Board of Management | - | 1,079 | 443 | 236 | 135 | 241 | 2,134 | 1,943 | 51 |

(1) Also includes payments classified as fixed remuneration that does not grant entitlement to benefits, as detailed in Note 22 to the Financial Statements.
(2) Amounts listed in the column of the table with the heading "additional benefits" include payments for vehicle expenses, daily allowances, and gross-up.
(3) The payments in the column with the heading "employer payments and provisions" include provisions for severance pay, compensation, pensions, study funds, vacation, National Insurance, and sick days, as well as unexpected expenses (income) due to updated actuarial calculations in respect of the Bank's obligation for benefits acquired in the past, before the inception of the Remuneration Limit Law.
(4) Excluding wage tax.
(5) Not including deposits and employer provisions for severance pay and compensation (including disability) in accordance with the law, which are not included in the definition of "remuneration" for the purposes of the Remuneration Limit Law, and not including provisions for past benefits accrued before the inception of the Remuneration Limit Law.
(6) The Financial Corporations Officer Remuneration Law does not apply to this officer.
(7) Pursuant to the employment agreement of August 2016, the executive is entitled to phantom units at a fixed value at the date of the grant (approximately CHF 180,000 per annum) (see Sections 4 and 5 of Note 22 to the Financial Statements). The amount noted in the table includes the value of the phantom units granted, as noted, in respect of 2018, and the increase in value as a result of the increase in the price of the Bank's share, in respect of the restricted phantom units granted for previous years. Ms. Lerer left on December 31, 2018.
(8) Left on November 16, 2018.

Table 6-3: Details of salaries, compensation, value of benefits, employer payments, and provisions for the senior officers of the Bank Group (in NIS thousands) (continued)

| | | 2017 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Name | Title | Rate of holdings in the capital of the Bank (%) | Salaries[1] | Bonuses | Benefit in respect of share-based payment | Value of additional benefits[2] | Employer payments and provisions[3] | Total remuneration pursuant to Regulation 21[4] | Total salaries and related expenses based on the Remuneration Limit Law[5] | Loans granted with regular terms |
| Eran Oded | Chairman of the Board of Directors | - | 1,966 | - | 505 | 1 | 346 | 2,818 | 2,523 | 43 |
| Pinto Ari | President and Chief Executive Officer | 0.01 | 2,353 | - | 100 | 4 | (180) | 2,277 | 2,516 | 42 |
| Lerer Orit | CEO of Bank Hapoalim Switzerland | - | 3,339 | - | [7]1,119 | 732 | 589 | 5,779 | [6]- | 113 |
| Alush Moshe | Deputy CEO of Bank Hapoalim Switzerland | - | 4,081 | - | - | 33 | 440 | 4,554 | [6]- | - |
| Stein Ronen | Member of the Board of Management | - | 1,463 | 247 | - | 248 | 1,457 | 3,415 | 2,472 | 864 |
| Koller Dan | Member of the Board of Management | 0.01 | 1,342 | 231 | - | 233 | 1,417 | 3,223 | 2,455 | 53 |
| Cohen Tsahi | Member of the Board of Management | 0.01 | 1,756 | 261 | - | 226 | 797 | 3,040 | 2,486 | 437 |
| Yosef Erez | Member of the Board of Management | - | 1,564 | 354 | 332 | 107 | 545 | 2,902 | 2,523 | 214 |

(1) Also includes payments classified as fixed remuneration that does not grant entitlement to benefits, as detailed in Note 22 to the Financial Statements.
(2) Amounts listed in the column of the table with the heading "additional benefits" include payments for vehicle expenses, daily allowances, and gross-up.
(3) The payments in the column with the heading "employer payments and provisions" include provisions for severance pay, compensation, pensions, study funds, vacation, National Insurance, and sick days, as well as unexpected expenses (income) due to updated actuarial calculations in respect of the Bank's obligation for benefits acquired in the past, before the inception of the Remuneration Limit Law.
(4) Excluding wage tax.
(5) Not including deposits and employer provisions for severance pay and compensation (including disability) in accordance with the law, which are not included in the definition of "remuneration" for the purposes of the Remuneration Limit Law, and not including provisions for past benefits accrued before the inception of the Remuneration Limit Law.
(6) The Financial Corporations Officer Remuneration Law does not apply to this officer.
(7) Pursuant to the employment agreement of August 2016, the executive is entitled to phantom units at a fixed value at the date of the grant (approximately CHF 180,000 per annum) (see Note 22C(5) to the Financial Statements). The amount noted in the table includes the value of the phantom units granted, as noted, in respect of 2017, and the increase in value as a result of the increase in the price of the Bank's share, in respect of the restricted phantom units granted for previous years.

**General notes**

The recipients of the remuneration are employed in full-time (100%) positions.

All employees of the Bank, including officers of the Bank, enjoy various benefits in the management of their bank accounts. The benefits mainly refer to an exemption from fixed account-management fees, fees for recording transactions in accounts, information printouts, checkbooks, securities custody, cash withdrawals, money transfers to other accounts, and credit-card membership fees. In addition, there are benefits in the form of reduced fee rates for buying and selling securities and foreign currency, standing instructions for payments executed through the account, and safe-deposit box rentals. Further, like all other employees of the Bank, the officers enjoy preferred interest rates on credit and debit balances in current accounts. The entire range of benefits given to officers totals negligible amounts, which do not exceed a total of NIS 50 thousand per year for each officer.

For further details regarding lateral remuneration components (including share-based payment) to which all members of the Board of Management of the Bank are entitled, including retirement terms, bonuses, etc., and with regard to the remuneration plan and the effects of the Remuneration Limit Law, see Notes 22 and 23 to the Financial Statements.

For additional information in accordance with the detailed disclosure requirements of Basel Pillar 3, see the disclosure published on the Bank's website and on the Magna website.

Bonuses in respect of 2018, which were approved by the Remuneration Committee and by the Board of Directors of the Bank, were determined mostly in accordance with measurable criteria established in advance, according to the directives of the Remuneration Plan (2016). Judgment exercised in connection with the bonuses for officers in respect of 2018 was in accordance with the directives of Amendment 20 to the Companies Law and the Banking Corporation Remuneration Policy Directive, and in accordance with the directives of the 2016 Remuneration Policy and the Remuneration Plan (2016).

The discussions of the Board of Directors were preceded by preliminary discussions of this matter by the Remuneration Committee. In discussions held by the Remuneration Committee and the Board of Directors, as noted, specific criteria established in advance for each officer according to the officer's position were examined, separately for each officer, as well as the officer's fulfillment of these criteria, and the congruence of the remuneration of the officer with the directives of the Remuneration Policy and the remuneration plan applicable to the officer.

With regard to the terms of service and employment of the executives detailed below, the Board of Directors noted that the terms are consistent with the employment agreements with the executives, which were approved by the organs of the Bank in accordance with the law; with the 2016 Remuneration Policy and the Remuneration Plan (2016) of the Bank, which were in effect in 2018; and with the directives of the Remuneration Limit Law, Amendment 20, and the Banking Corporation Remuneration Policy Directive. With regard to the Remuneration Plan (2016) and the remuneration of officers and interested parties, see Notes 22 and 23 to the Financial Statements.

### Mr. Oded Eran

The terms of service of Mr. Oded Eran as Chairman of the Board of the Bank were approved by the Remuneration Committee and by the Board of Directors of the Bank on February 27, 2017, and by the general meeting of shareholders of the Bank on April 4, 2017, for the period from January 1, 2017 to December 31, 2019. The employment agreement with the Chairman conforms with the directives of the 2016 Remuneration Policy, the 2016 Remuneration Plan, and the applicable laws, including the Banking Corporation Remuneration Policy Directive, pursuant to which the Chairman shall be entitled to the payment of fixed remuneration only, including a salary, related benefits, and fixed equity compensation. With regard to the terms of remuneration and employment of Mr. Oded Eran, including the period of his employment, the terms for termination of the contractual engagement, the advance notice period, severance pay and pensions, study fund, and related terms, see the Immediate Report dated February 27, 2017, reference no. 2017-01-017302, included herein by reference.

### Mr. Ari Pinto

Mr. Pinto began to serve as CEO of the Bank on August 1, 2016. The employment agreement of Mr. Ari Pinto covers a period of three years and approximately three months, from October 12, 2016 to December 31, 2019. The remuneration of the CEO in 2017 was in accordance with a new remuneration agreement, which conforms with the 2016 Remuneration Policy and with the Remuneration Plan (2016). With regard to the terms of remuneration and employment of Mr. Pinto, including the period of his employment, the terms for termination of the contractual engagement, the advance notice period, severance pay and pensions, study fund, and related terms, see the Immediate Report dated November 8, 2016, reference no. 2016-01-074259, included herein by reference.

### Ms. Orit Lerer

Ms. Lerer served as CEO of Bank Hapoalim (Switzerland) Ltd. from August 8, 2012, to December 31, 2018. All of the costs of employment of Ms. Lerer were paid by Bank Hapoalim Switzerland, in Swiss francs, and were adjusted for the cost of living in Switzerland. The terms of the remuneration of Ms. Lerer, as detailed in the table above, were approved by Bank Hapoalim Switzerland Ltd., and are commensurate with prevalent levels of salaries for CEOs of banks in Switzerland of similar size and activity.

### Mr. Moshe Alush

Mr. Alush served as Deputy CEO and Head of Private Banking at Bank Hapoalim (Switzerland) Ltd. from October 1, 2010, to November 16, 2018. All of the costs of employment of Mr. Alush were paid by Bank Hapoalim Switzerland, in Swiss francs, and were adjusted for the cost of living in Switzerland. The terms of the remuneration of Mr. Alush, as detailed in the table above, were approved by Bank Hapoalim Switzerland Ltd., and are commensurate with prevalent levels at banks in Switzerland for holders of comparable positions.

### Ms. Eti Ben-Zeev

Ms. Eti Ben-Zeev serves as Head of Information Technology. The employment agreement of Ms. Eti Ben-Zeev covers a period of four years and three months, from January 1, 2017, to March 31, 2021.

**Mr. Yadin Antebi**

Mr. Yadin Antebi serves as Head of Financial Markets and International Banking. The employment agreement of Mr. Yadin Antebi covers a period of three years and six months, from January 1, 2018, to June 30, 2021.

**Dr. Ron Weksler**

Dr. Ron Weksler serves as CEO of Isracard, Europay, and Poalim Express. The employment agreement of Mr. Ron Weksler covers the period from July 1, 2017, to March 31, 2021.

**Ms. Yael Almog**

Ms. Yael Almog serves as Chief Legal Advisor. The employment agreement of Ms. Yael Almog covers a period of three years and one month, from June 1, 2017, to June 30, 2020.

**Mr. Golan Scherman**

Mr. Golan Scherman serves as Head of Innovation. The employment agreement of Mr. Golan Scherman covers a period of three years and two months, from February 1, 2018, to March 31, 2021.

### 6.6. Other matters

The term of service of Ms. Dafna Schwartz as an external director of the Bank pursuant to the directives of the Companies Law ended on April 5, 2018.

At the annual general meeting of shareholders of the Bank, which convened on April 12, 2018, the following resolutions were discussed and passed: discussion of the audited annual financial statements of the Bank as at December 31, 2016, and the Report of the Board of Directors and Board of Management for the year ended on that date, and of the audited annual financial statements of the Bank as at December 31, 2017, and the Report of the Board of Directors and Board of Management for the year ended on that date; renewed appointment of Somekh Chaikin (KPMG), CPA (Isr.), and Ziv Haft (BDO), CPA (Isr.), as the joint auditors of the Bank, until the end of the next annual general meeting of the Bank; adoption of amendments to the Articles of the Bank; and appointment of Ms. Dalia Lev to serve as an external director of the Bank according to the directives of the Companies Law.

On April 28, 2018, Mr. Amnon Dick resigned from service as an external director of the Bank pursuant to Proper Conduct of Banking Business Directive 301, in accordance with the directives of the Law for the Promotion of Competition and Reduction of Concentration, 2013, and with Section 11A1 of the Banking Ordinance, 1941, upon the appointment of Mr. Dick as a director of Bezeq The Israel Telecommunication Corp. Ltd., which is considered a significant non-financial corporation, while the Bank is a significant financial entity.

On May 1, 2018, Mr. Niv Polani began to serve as Head of Business Development, reporting to the CEO of the Bank.

On May 29, 2018, when the approval of the Banking Supervision Department was received, the following appointments to the Board of Management of the Bank took effect:
Yadin Antebi was appointed Head of Financial Markets and International Banking, replacing Dan Alexander Koller, who left the Bank; Ofer Koren joined the Board of Management of the Bank and was appointed to the position of Chief Financial Officer, replacing Yadin Antebi; Dr. Amir Bachar joined the Board of Management of the Bank and was appointed to the position of Chief Risk Officer.

Mr. Richard Kaplan was appointed by the Board of Directors as a director of the Bank, beginning July 1, 2018. The special general meeting of shareholders of the Bank, which convened on October 23, 2018, resolved to approve the appointment of Mr. Kaplan as a director of the Bank for a period of three years, from October 23, 2018, to October 22, 2021.

Mr. Gilad Bloch was appointed Corporate Secretary, beginning February 1, 2019. Mr. Bloch replaced Ms. Ronit Shapira, who retired from the Bank.

## Decentralization of the controlling core of the Bank and transition to a bank without a controlling core

Until November 22, 2018, the holder of the permit for control of the Bank was Ms. Shari Arison ("Arison"), who held, through Arison Holdings (1998) Ltd. ("Arison Holdings"), approximately 20.01% of the shares of the Bank. On September 4, 2018, the Bank received notice from Arison Holdings that Ms. Arison had received a permit from the Bank of Israel to hold means of control of the Bank (the "Holding Permit"), which would allow decentralization of the controlling core of the Bank, and which would replace the permit to control and hold means of control of the Bank granted to Ms. Arison in the past, at the earlier of December 31, 2018, or the date of the first transfer of means of control of the Bank as a result of which Ms. Arison's holding in any type of means of control of the Bank fell below 20%. The Holding Permit, a copy of which is included in the Immediate Report issued by the Bank on September 4, 2018, contains instructions, among other matters, according to which:

- The sale of the shares of the Bank shall begin no later than September 15, 2019. A period of four years from the date of the initial sale will be granted for the sale of the remaining means of control of the Bank in excess of 5% of the means of control. If necessary, it will be possible to extend this period by up to two additional years, with the approval of the Supervisor of Banks (the aforesaid period granted for the sale: the "Transitional Period").
- During the Transitional Period, Arison is permitted to perform sales of means of control of the Bank, and shall not perform any acquisitions.
- As of the inception date of the Holding Permit, Arison shall not vote based on voting rights in excess of 5% of the means of control of the Bank.
- From the inception date of the Holding Period to one year after the Transitional Period (the "Cooling Off Period"), Arison shall not be permitted to propose candidates for service as directors of the Bank, or to be involved in any manner in the proposal of candidates for service on the Board of Directors, and shall not be permitted to propose the termination of a director's service. Without prejudice to the foregoing, Arison shall be permitted to vote on the appointment or termination of service of directors (not proposed by her, as noted), through voting rights of up to 5% of the means of control of the Bank.

- Until the end of the Cooling Off Period, Arison shall be considered a related person and a controlling party, for the purpose of the Proper Conduct of Banking Business Directive concerning the business of a banking corporation with related persons (Directive 312)[1]. Transactions in respect of which the total indebtedness of Arison and of corporations under her control exceeds 1% shall be reported to the Supervisor. Until the end of the Transitional Period, Arison, her relatives, or corporations under the control of any of the foregoing shall not receive management fees, or any other consideration or benefit (with the exception of distribution) from the Bank and from the corporations under its control, but they shall be permitted to provide services as provided routinely by the provider, at market prices, with the approval of the Supervisor of Banks.
- Until the end of the Transitional Period, unless granted advance approval by the Supervisor, Arison and the corporations under her control shall not engage in any business in Israel of taking deposits (even from less than thirty people), granting credit, or any other financial occupation in Israel that has an aspect of competition with the business of the Bank; and Arison and the corporations under her control shall not be interested parties, directors, or senior executives of corporations engaged in the aforesaid occupations.
- The Bank must act to ensure that the procedures of the Bank are consistent and congruent with the directives of the Holding Permit.

The notification of Arison Holdings to the Bank of September 4, 2018, also stated that in light of the Holding Permit and the desire to reduce restrictions on sales of the shares of the Bank, the representatives of Arison Holdings on the Board of Directors of the Bank (Ms. Efrat Peled, Mr. Ido Stern, and Mr. Meir Wietchner) would give notice of the end of their service at the Bank. Later that day, the aforesaid directors resigned from their service on the Board of Directors of the Bank.

On November 22, 2018, Arison Holdings notified the Bank that a transaction had been completed for the sale of 4.26% of the shares of the Bank (see the Immediate Report of the Bank of that date); that its rate of holdings in the Bank had decreased to approximately 15.74%; and that the Holding Permit (which replaced the control permit, as noted) had taken effect. As of that date, Arison Holdings is no longer considered a controlling party of the Bank for the purposes of the directives of the Companies Law, 1999, and the Securities Law, 1968, and the Bank is a banking corporation without a controlling core.

Note that the aforesaid expired control permit included a historical restriction on the distribution of dividends from profits accumulated at the Bank up to June 30, 1997 (immediately prior to the acquisition of control by the Arison Group and its partners in the control of the Bank at the time) (see p. 36 in the Report of the Board of Directors and Board of Management of the Bank for the third quarter of 2018). The Holding Permit does not include this historical restriction, or any similar directive, and accordingly, this restriction is no longer in effect.

(1) With regard to this matter, it is clarified that from the inception date of the Holding Permit (and correspondingly, the expiration of the existing control permit), Arison is no longer considered a controlling party of the Bank for the purposes of the directives of the Companies Law and the Securities Law.

**A bank without a controlling core – composition of the Board of Directors and preparation for the general meeting in 2019**

At a banking corporation without a controlling core, appointments of directors are generally performed at an annual general meeting, in accordance with the directives of the Banking Ordinance, 1941 (the "Banking Ordinance") and the Banking (Licensing) Law, 1981 (the "Banking Licensing Law"). A designated committee appointed by the Governor of the Bank of Israel, pursuant to the Banking Licensing Law, proposes candidates for service as directors to the general meeting of the banking corporation. According to the directives of the Banking Ordinance, in addition to the committee, only material holders (holders of more than 2.5% of the means of control of the bank) or a society of holders (as established in the Banking Ordinance) are permitted to propose candidates for service as directors. The board of directors of the bank is not permitted to propose candidates for such service, and officers of the banking corporation are not permitted to act in order to appoint or to prevent the appointment of a particular director. The Banking Ordinance establishes limits and qualification conditions for service with regard to all directors of a banking corporation without a controlling core, including limits on the existence of an affiliation with the banking corporation or with officers or material holders thereof, limits on holdings of means of control of the banking corporation, and limits on the duration of service.

An annual general meeting is expected to convene in June or July 2019, the agenda of which will include, among other matters, the appointment of directors. In this context, the Supervisor of Banks notified the Bank, in January 2019, in response to an inquiry of the Bank, that: (a) within her authority pursuant to Section 22(B) of Directive 301, and pursuant to Section 35A of the Banking Law (Licensing), 1981, she affirms that the appropriate number of members to serve on the Board of Directors after completion of the appointment procedure at the general meeting for 2019 is nine members, and that in 2020 the number of directors will be ten; (b) within her authority pursuant to Section 11(A)(6) of the Banking Ordinance, 1941, she approves the extension of the term of service of Mr. Reuven Krupik as an external director of the Bank pursuant to Directive 301 for a period of six months from the day of the end of his term of service (February 17, 2019), or until the number of directors is supplemented to reach the appropriate number noted, whichever is earlier, as, at the end of the term of service of Mr. Krupik, as noted, the number of directors of the Bank will stand at six, less than the minimum pursuant to Directive 301 (seven directors) and less than the appropriate number of members of the Board of Directors that the Supervisor of Banks has determined should serve after completion of the appointment procedure at the general meeting for 2019 (nine directors). If Mr. Krupik is elected for an additional term of service at the general meeting for 2019, and his appointment is affirmed, his term of service will be considered to have begun on the date of the extension of such term of service; and (c) in light of the fact that over half of the members of the Board of Directors will be replaced or will stand for election at the coming annual meeting, and in view of the considerations underlying the directives of Section 11E(a)(5) of the Banking Ordinance and of Section 22(B) of Directive 301, and in particular due to the need for balance between new and experienced directors, the Supervisor of Banks approved the extension of the term of service of Mr. Moshe Koren until the annual meeting for 2020.

In accordance with the foregoing, as part of the Bank's preparations for the general meeting for 2019, following a discussion of the Board of Directors regarding the needs concerning the composition of the Board of Directors of the Bank, taking into consideration the directives of the law and the characteristics of the Bank and of its activity, the Bank addressed a request to the Banking Corporation Director Appointment Committee for the proposal of candidates to the general meeting for 2019 for five director positions, including one external director pursuant to the Companies Law (who also meets the conditions for qualification as an external director pursuant to Directive 301), two external directors pursuant to Directive 301, and two additional "other" directors.

### 6.7. Standards concerning interested party transactions

The following are details of the main points of the various standards established by the Audit Committee in the past, and recently in March 2019, with regard to approval and reporting of transactions with interested parties of the Bank (transactions with a controlling party / officer, or in which a controlling party / officer has a personal interest), in accordance with the directives of the Companies Law. At the date of publication of the financial statements, the Bank is a banking corporation without a controlling core, and has no controlling party. Accordingly, the standards will primarily be used by the Bank in the classification of transactions with officers, or in which officers have a personal interest, and for reporting on transactions with the controlling party or in which the controlling party has a personal interest which were in effect in 2018, before the Bank became a banking corporation without a controlling core. During 2018, standards established by the Audit Committee were also in effect at the Bank with regard to the requirement to conduct a competitive proceeding under the supervision of the committee or other proceedings in connection with transactions of a company with a controlling party thereof, or with others when the controlling party has a personal interest in the transaction. These standards were detailed in this section of the Periodic Report of the Bank for 2017.

## Extraordinary/non-extraordinary transactions

Pursuant to the directives of the Companies Law, a transaction shall be considered a non-extraordinary transaction if it fulfills the following cumulative conditions: the transaction is in the ordinary course of business of the company, it is performed at market terms, and it is not material for the company. The standards established by the Audit Committee, as noted, include the following main directives with regard to this matter:

**Ordinary course of business of the Bank.** A transaction shall be considered one that is performed in the ordinary course of business of the Bank if the contractual engagement is performed within the routine transactions of the Bank in practice, and it is not a nonrecurring transaction or a transaction that is exceptional within the activity of the Bank. Transactions of the following types shall be considered transactions in the ordinary course of business of the Bank, unless special considerations apply: a banking transaction of any type whatsoever, including credit granting, guarantees, and the related contractual engagements, depositing and taking deposits, transactions in securities, participatory units in mutual funds or other funds, execution of investments of any kind whatsoever (non-financial, in tradable or nontradable securities), etc., provided that the transaction is of a type of transaction in which the Bank has engaged in the past during the course of its business, and is similar to such transactions in its characteristics (for example, with respect to credit granting – the credit is in an amount that the Bank customarily grants to borrowers with similar characteristics); a transaction that is part of the core business of the Bank, or that is related to the business activity of the Bank or is in the service thereof, even if it is not in the core of its business (for example, a transaction for rental of a property to be used as a branch of the Bank, an insurance transaction related to the activity of the Bank, activity to instill the vision of the Bank, etc.), which is of a type of transaction in which the Bank customarily engages or which it has executed in the past in the course of its activity; transactions for the acquisition/sale of an asset (including a yield-generating asset or other fixed assets), product, or service, which is of a type of transaction in which the Bank customarily engages or which it has executed in the past in the course of its activity; and contractual engagements related to the service and/or employment of officers and employees of the company (including insurance, exemption, and indemnification), of a type of contractual engagement customary and practiced at the Bank, or similar in characteristics to past contractual engagements of the Bank.

**Market terms.** A transaction shall be considered one that is performed at market terms if the price and other principal and material terms of the transaction reflect the price and principal terms of a similar transaction, if it were executed between the company and an unrelated third party, or between other unrelated parties. The existence of market terms in a transaction with an interested party can be determined if a market for transactions of the type of the examined transaction exists, or if external evidence exists for the transaction that can indicate the price and other principal terms prevalent for transactions of this type. Among other matters, the existence of market terms can be determined in one or more of the following ways: the terms of the transaction are similar to the terms of at least two transactions similar in characteristics (such as the type of customer or counterparty to the transaction and characteristics thereof, the volume of the transaction, and other characteristics relative to market terms, such as collateral or the extent of the customer's activity with the Bank), performed by the Bank in the period near the date of the contractual engagement in the transaction under examination (including quotes/binding offers proposed by the Bank to its customers, and binding offers proposed to the Bank), provided that they are prepared (or quoted, as relevant), with a party unrelated to the Bank, and a controlling party/officer of the Bank had no personal interest therein; the terms of the transaction are similar to the terms of at least two transactions in the relevant market, known to the Bank and similar in characteristics (such as the type of customer or counterparty to the transaction and characteristics thereof, the volume of the transaction, and other characteristics relative to market terms, such as collateral), performed in the period near the date of the contractual engagement in the transaction under examination, provided that they are performed between unrelated parties; a price set in an orderly market of buyers and sellers, such as prices of tradable securities or commodity prices, provided that sufficient tradability exists in that market with respect to the relevant asset, product, or service; based on the terms of transactions similar in essence to the transaction under examination in which the other party in the transaction contracted, or received an offer to contract (and was willing to contract, even if it did not actually contract) with unrelated parties, provided that the other party affirms the same to the company in writing; or if the terms of the transaction between the company and the related party were established before it was a related party, and under the circumstances there is no concern over bias in the terms of the transaction and no significant change in market terms is known, as shall be determined by the Audit Committee.

**Materiality of the transaction.** The materiality of a transaction with an interested party is examined based on a quantitative and qualitative test. In the absence of special qualitative considerations that arise from the overall circumstances of the matter, the following interested party transactions shall be considered immaterial transactions: any transaction involving the granting of credit by the Bank, if the increase in indebtedness ("indebtedness" as defined in Proper Conduct of Banking Business Directive 312 of the Supervisor of Banks) of the group of the controlling party (or the increase in the indebtedness of the borrower if it is not of the group of the controlling party) (hereinafter: the "Borrower") after the transaction does not exceed 2% of the supervisory capital ("supervisory capital" – Tier 1 capital after adjustments and deductions, as defined in Proper Conduct of Banking Business Directive 202, and in accordance with the transitional directives in the amendment of Directive 312, plus Tier 2 capital, as published in the financial statements as at December 31, 2014; this increment was reduced in equal installments over sixteen quarters, until it reached zero on December 31, 2018) in the most recent financial statements of the Bank, and after the execution thereof the total indebtedness of the Borrower does not exceed 7.5% of the supervisory capital (the Audit Committee shall discuss the classification of each transaction in an amount exceeding 0.5% of supervisory capital). A number of transactions executed consecutively with the same Borrower and related to one another shall be considered a single transaction, such that for the purpose of the classification of the aforesaid transactions the cumulative amount of such transactions shall be examined; a transaction of depositing moneys of any kind whatsoever, if following the transaction the total deposits of the depositor do not exceed 2% of total deposits from the public, as reported in the most recent consolidated balance sheet of the Bank published to the public prior to the deposit; a transaction of deposit and/or acquisition and/or sale of securities, participatory units in mutual funds and/or other funds, and any other investment held by the Bank as an asset of the customer (not as a balance sheet liability), when the amount of such a transaction does not exceed 0.5% of the total balance of off-balance sheet monetary assets of the customers in the Bank Group, as reported in the most recent consolidated balance sheet of the Bank published to the public at the date of execution of the transaction; and any other transaction of the Bank not mentioned above, if the amount of the transaction does not exceed NIS 300 million. The materiality of transactions executed frequently, regularly, and repeatedly over a period of time shall be examined based on the annual volume of the transactions. In multi-year transactions, the volume of the transaction for the purpose of examining its materiality shall be calculated on an annual basis. The examination of qualitative considerations may affect the classification of a transaction as material/immaterial. Thus, for example, a transaction with quantitative characteristics slightly higher than those noted above may be considered immaterial, if in qualitative terms and under the circumstances it is reasonable to determine that it is not likely to materially affect the Bank

## Negligible transactions

An interested party transaction shall be considered a negligible transaction for the purposes of approval and reporting procedures if the following cumulative conditions apply to it: the transaction is not extraordinary (whether classified as such based on the standards, or by the Audit Committee); the transaction is of a type of transaction in which the Bank engages in the ordinary course of its business, including banking transactions of any kind and transactions in connection with financial products and services, the acquisition of products and services, rental, and renting of property; the transaction is compliant with the limits on indebtedness of related persons based on Directive 312; and one of the following conditions applies to the transaction: (a) it is a banking transaction of the type of transactions that the Bank usually executes with the public in the ordinary course of its business, and its volume does not exceed 0.1% of the supervisory capital in the most recent financial statements of the Bank; or (b) it is another transaction the volume of which does not exceed NIS 10 million, provided that the total transactions of its type in the calendar year with the interested party do not exceed 0.1% of supervisory capital.

Table 6-4: Details of the balances of the former controlling party of the Bank and of others in whose transactions with the Bank the controlling party may be considered to have a personal interest (in NIS thousands)

| | Balance as at December 31, 2018 | Highest balance in 2018 |
|---|---|---|
| **Shikun & Binui Ltd. Group**[1] | | |
| Balance sheet credit | **253,376** | **370,109** |
| Commitments to grant credit | **164,630** | **355,931** |
| Sale guarantees, guarantees to secure credit, and others | **312,182** | **766,227** |
| Balance sheet and off-balance sheet credit in respect of transactions in derivatives [2] | **1,596** | **2,355** |
| Guarantees to third parties | **4,000** | **9,172** |
| Deposits from the public (balance sheet) | **129,910** | **642,053** |
| Expenses in respect of non-banking activity | **-** | **-** |
| **"Ruach Tova" Foundation** | | |
| Deposits from the public (balance sheet) | **361** | **4,133** |
| Sponsorships[3] | **762** | **-** |
| **Tel Aviv Museum of Art** | | |
| Sponsorships[4] | **180** | **-** |
| **"Matan – Investing in the Community" Foundation** | | |
| Donations[5] | **500** | **-** |
| **Interdisciplinary Center Herzliya** | | |
| Sponsorships[6] | **150** | **-** |
| **Shari Arison** | | |
| Commitments to grant credit | **10** | **10** |
| Sale guarantees, guarantees to secure credit, and others | **27** | **27** |
| Deposits from the public (balance sheet) | **22,391** | **22,391** |
| **Arison Holdings Ltd.** | | |
| Deposits from the public | **6** | **7** |

(1) Ms. Shari Arison was the controlling shareholder of Shikun & Binui Ltd. (hereinafter: "Shikun & Binui") and of the companies in this group until August 2018. For reasons of caution, the Bank continued to attribute a personal interest to Arison Holdings in transactions of the Bank with the Shikun & Binui Group after the Arison Group sold its holdings in the Shikun & Binui Group, as long as Arison Holdings was considered the controlling party of the Bank pursuant to the directives of the Companies Law and of the Securities Law (i.e. until November 22, 2018). The information presented regarding the Bank's business (balance sheet credit, off-balance sheet credit, and monetary deposits) with the Shikun & Binui Group refers to the accounts of Shikun & Binui itself, as well as to all of the corporations under its control, excluding the accounts of a corporation under its control, which are reported separately. Note that because the information refers to the group as a whole, it includes data which would be considered negligible for each company in its own right, and which would not be reported at all if the report referred to each corporation individually.

(2) Off-balance sheet credit as calculated for the purpose of the limits on borrower indebtedness, pursuant to Proper Conduct of Banking Business Directive 313. The balance as at December 31, 2018 includes a balance of balance sheet fair value of derivatives in the amount of approximately NIS 1,096 thousand.

(3) The Bank granted this sponsorship through its participation in financing the activities of Good Deeds Day. Mr. Jason Arison, son of Ms. Shari Arison, volunteers on the executive board of the Ruach Tova Foundation.

(4) Sponsorship within the Passover Project. Mr. Jason Arison, son of Ms. Shari Arison, volunteers on the executive board of the Tel Aviv Museum of Art.

(5) Aid for the project "Financial Education – A Treasure to Carry" and the initiative "A Password for Every Student." Mr. Jason Arison, son of Ms. Shari Arison, volunteers on the executive board of the Matan – Investing in the Community Foundation.

(6) Sponsorship for the Economic Clinics program at the IDC Tiomkin School, Financial Education Clinic, for business development and economic policy planning. Ms. Shari Arison, the former controlling party of the Bank, serves as a shareholder and director of the Interdisciplinary Center Herzliya.

Table 6-4: Details of the balances of the controlling party of the Bank and of others in whose transactions with the Bank the controlling party may be considered to have a personal interest (in NIS thousands) (continued)

| | Balance as at December 31, 2017 | Highest balance in 2017 |
|---|---|---|
| **Shikun & Binui Ltd. Group[1]** | | |
| Balance sheet credit | 200,786 | 221,775 |
| Commitments to grant credit | 334,113 | 516,891 |
| Sale guarantees, guarantees to secure credit, and others | 349,119 | 514,107 |
| Balance sheet and off-balance sheet credit in respect of transactions in derivatives[2] | 2,355 | 11,888 |
| Guarantees to third parties | 9,172 | 9,194 |
| Deductions | - | - |
| Deposits from the public (balance sheet) | 162,543 | 191,805 |
| Expenses in respect of non-banking activity | 719 | - |
| **"Ruach Tova" Foundation** | | |
| Deposits from the public (balance sheet) | 1,633 | 1,633 |
| Sponsorships[3] | 950 | - |
| **Tel Aviv Museum of Art[4]** | | |
| Donations | 75 | - |
| Sponsorships | 180 | - |
| **"Matan – Investing in the Community" Foundation** | | |
| Donations[5] | 1,000 | - |
| **Interdisciplinary Center Herzliya** | | |
| Sponsorships[6] | 150 | - |
| **Shari Arison** | | |
| Commitments to grant credit | 10 | 10 |
| Sale guarantees, guarantees to secure credit, and others | 27 | 38 |
| Deposits from the public (balance sheet) | 18,310 | 20,166 |
| **Arison Holdings Ltd.** | | |
| Deposits from the public | 7 | 10 |

(1) Ms. Shari Arison was the controlling shareholder of Shikun & Binui Ltd. (hereinafter: "Shikun & Binui") and of the companies in this group until August 2018. The information presented regarding the Bank's business (balance sheet credit, off-balance sheet credit, and monetary deposits) with the Shikun & Binui Group refers to the accounts of Shikun & Binui itself, as well as to all of the corporations under its control, excluding the accounts of a corporation under its control, which are reported separately. Note that because the information refers to the group as a whole, it includes data which might be considered negligible for each company in its own right if the report referred to each corporation individually.

(2) Off-balance sheet credit as calculated for the purpose of the limits on borrower indebtedness, pursuant to Proper Conduct of Banking Business Directive 313. The balance as at December 31, 2017 includes a balance of balance sheet fair value of derivatives in the amount of approximately NIS 1,832 thousand.

(3) The Bank granted this sponsorship through its participation in financing the activities of Good Deeds Day. Mr. Jason Arison, son of Ms. Shari Arison, volunteers on the executive board of the Ruach Tova Foundation.

(4) Assistance to the Tel Aviv Museum through a sponsorship within the Passover Project. In addition, a donation was given to the museum for an educational program. Mr. Jason Arison, son of Ms. Shari Arison, serves as a member of the executive board and of the board of directors of the museum.

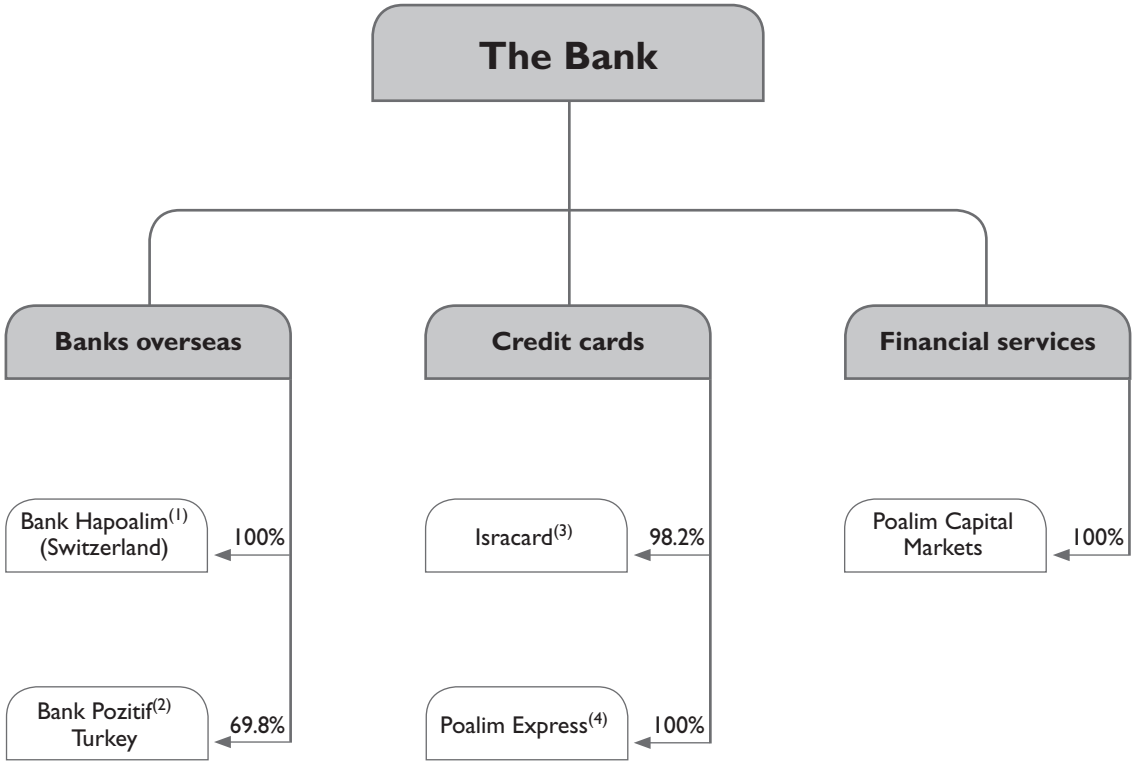
(5) The Bank, through the Poalim for the Community Foundation, which serves as the Bank's channel for donations to public institutions, granted this donation within its participation in the project "A Password for Every Student," as well as for the empowerment of organizations, training of staff, mentoring, and measurement and assessment projects. Mr. Jason Arison, son of Ms. Shari Arison, volunteers on the executive board of the Matan – Investing in the Community Foundation.

(6) Sponsorship for the Economic Clinics program, in which economics students provide economic advice and financial education to disadvantaged population groups. Ms. Shari Arison is a shareholder and director at the Interdisciplinary Center Herzliya.

## 7. Additional information regarding the business of the banking corporation and the management thereof

### 7.1. Holdings chart

Set out below is a chart of the Bank's main holdings* as at December 31, 2018:




* The chart includes the principal companies held directly by the Bank or indirectly through private subsidiaries under the full ownership of the Bank. The wholly-owned subsidiaries through which the companies in the above chart are held do not appear in the chart. For the purposes of this chart, a principal company is a company engaged in business operations which in the opinion of the Board of Management of the Bank is a principal company in the Group, and in which the Bank's investment is at least 1% of the shareholders' equity of the Bank, or the Bank's share of whose net profit (loss) attributed to shareholders of the Bank exceeds 5% of the net profit (or loss) attributed to shareholders of the Bank (similar to the criterion established in Public Reporting Directive 662 of the Supervisor of Banks regarding the statement of data on principal subsidiaries in financial statements of banking corporations).

(1) In September 2017, the Bank decided to act to discontinue the activity of Hapoalim Switzerland, through the sale of its assets or by other means. As part of the realization of the decision to discontinue the activity of Hapoalim Switzerland, a transaction was completed in the fourth quarter of 2018 for the sale of most of the global private banking customer asset portfolio of Hapoalim Switzerland at its branches in Switzerland and Luxembourg to Bank J. Safra Sarasin AG and Banque Safra Sarasin (Luxembourg) SA.

(2) The Bank is examining possibilities for the sale of its full holdings in Bank Pozitif, further to the strategic plan of the Bank, in which a decision was made to gradually reduce the credit portfolio at Bank Pozitif.

(3) On March 10, 2019, Isracard published a sale offering prospectus for shares of Isracard. For details, see Note 15 to the Financial Statements.

(4) On March 3, 2019, the full holdings of the Bank in Poalim Express were transferred to Isracard. For details, see Note 15 to the Financial Statements.

## 7.2. Control of the Bank

At the date of publication of this report, the Bank is a banking corporation without a controlling core, and it has no controlling party or shareholder holding a control permit. Until November 22, 2018, Ms. Shari Arison was the holder of the permit for control of the Bank, through her holdings in the Bank via Arison Holdings (1998) Ltd. (hereinafter: "Arison Holdings"). For additional information regarding the replacement of the control permit by a holding permit and the restrictions that apply to the holdings of Ms. Arison in the Bank, see Section 6.6 above.

## 7.3. Fixed assets

Table 7-1: Fixed assets[1]

| | December 31 | | | |
|---|---|---|---|---|
| | **2018** | | | 2017 |
| | Cost | Accrued depreciation | Balance | Balance |
| | NIS millions | | | |
| Buildings and land (including installations and improvements to rented properties) | **4,077** | **2,370** | **1,707** | 1,754 |
| Equipment, including computers, furniture, and vehicles | **2,320** | **1,841** | **479** | 501 |
| Software | **4,455** | **3,530** | **925** | 868 |
| Total | **10,852** | **7,741** | **3,111** | 3,123 |

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G.

The buildings in which the Bank's business is conducted in Israel are under its ownership (directly or under the ownership of wholly-owned property companies), or rented for various rental periods.

Most of the properties in which the Bank Group's business is conducted overseas are rented.

The Bank owns 154 properties with an area of 203 thousand square meters, of which 133 buildings with a total area of 93 thousand square meters used as branches, and 21 buildings with a total area of 110 thousand square meters used as management offices and auxiliary space. In addition to the buildings under its ownership, the Bank Group rents 160 buildings with an area of 128 thousand square meters.

The Board of Directors has resolved to act to centralize the Head Office units. The Bank is working to locate and examine alternatives suited to its needs. The planning and transition are expected to take several years.

For further data regarding buildings and equipment, see Note 16 to the Financial Statements.

### IT infrastructures

#### General information

The Bank has two central IT sites: Rotem in Emek Hefer, a production site containing two separate IT sites in a high-availability configuration, and a backup (DR) site in Tel Aviv, to ensure maximum survivability. The Bank's core system is installed on an IBM mainframe computer. An additional mainframe computer is in operation at the backup site, in a minimal configuration. When necessary, this computer will be expanded to the required power.

Additional systems operate alongside the core system (Linux, Unix, and Windows-based systems – hereinafter: the "Open Systems"), for specific needs, using a platform that allows dynamic distribution and optimal utilization of resources.

The Bank uses advanced methodologies and systems to streamline development and production processes.

The Bank Group's branches, regional administrations, business centers, and Head Office units are computerized and connected online to the computer centers of the Information Technology Area. 523 external ATMs, 101 internal ATMs, 309 external check-deposit machines, 302 internal check-deposit machines, 87 Adkan information stations, and 281 Toran self-service stations are available to customers.

The systems used by the Isracard Group include mainframe computers (including for backup purposes), open systems, and hardware and software used by the company in its routine operations in the areas of issuance and clearing and in the operation of credit-card arrangements. These systems meet the requirements of the technical specifications established by the international organizations.

The Bank has begun a process of examining an upgrade of its core systems, in order to adapt these systems to coping with the challenges of the future.

**Information backup and storage**

As noted above, the Bank has two central IT sites (at two geographical locations: Emek Hefer and Tel Aviv), a double main production site and a backup site.

In addition, the Bank has databases that store copies of paper documents, mortgage documents, etc., for everyday use in data retrieval and in order to retain an accessible historical copy of these data.

Every action executed on the Bank's computers is simultaneously updated at the Rotem production site (with double saving) and at the backup site, so that in case of disaster or physical malfunction, a backup exists for the Bank's critical systems, and damage to the hardware at one of the sites would not cause information loss. Beyond that, the Bank retains a copy of the data at a separate site (in Petach Tikva), in accordance with the policy of the Bank of Israel.

In the event of an emergency switch to the backup site, the Bank has the capability to immediately increase the power of the backup computer (MF) to the power level of the production computer, by operating dormant engines; in other words, the backup site has the capacity for the computer power (MF) required for all of the Bank's routine business activity.

**Communications**

The Bank has an advanced data and voice communications network, with high data transmission speeds. The communications network has high survivability and includes backups that allow work with both of the Bank's IT centers. The Bank's communications network also connects the Bank's branches and offices worldwide and transmits data services, speech, and video conferences.

**Subsidiaries**

The IT and operational systems of the overseas subsidiaries, as well as of the activity of the Bank Group overseas not conducted through subsidiaries, are based on independent systems; managerial responsibility rests with the managements and boards of directors of the subsidiaries, or with the member of the Board of Management responsible for the activity, as relevant.

**Suppliers**

From time to time, the Bank enters into contractual engagements with suppliers from Israel and elsewhere to receive the various services it requires in the area of information systems, including agreements for the purchase and maintenance of equipment, implementation of information systems, and purchase of software.

The Bank has contracted with suppliers for the provision of outsourcing services, at this stage mainly in the areas of development, testing, and support services.

**Information security**

Investment in information security of information systems is an integral, inseparable part of the development of modern information systems. Information security is implemented on several levels and circuits in the Bank's systems, in order to ensure that the Bank's systems are well protected against penetration, unauthorized access, or damage, and to prevent leaks of information.

Information-related projects at the Bank are accompanied from their inception by an information-security team that ensures strict compliance with information-security rules, protection of the privacy of information, and restriction of access to information to authorized personnel only. Security events in IT systems are referred in real time to an expert center of information-security personnel, and addressed and documented from the initial stage of the event to its completion. Relevant events are also referred to the Audit Department. Material incidents are reported to the Board of Management and to the Board of Directors. The Bank routinely conducts resilience tests and information-security surveys of its systems, in order to ensure that information security is maintained at all times and complies with the strict rules established in this area.

**Main projects**

**Core systems modernization plan –** The Bank is planning significant investments in technological transformation over the coming years, in order to cope with the challenges of the future, taking into consideration regulatory, technological, and consumer trends. In this context, the Board of Management of the Bank plans to embark on a large-scale plan to upgrade its central core banking systems. This plan is characterized by massive short-term investment in infrastructure systems that will serve the Bank in the long term, the benefit of which will be derived gradually, over long periods.

**Banking via mobile devices –** Development and expansion of applications designed for use on Bank customers' mobile devices. The applications offer business capabilities in a wide range of areas and customer segments, through an innovative and unique interface and user experience, with an emphasis on business and technological leadership and adaptation to the customer.

**Websites –** Development of a new online system, designed to preserve and solidify the business technology leadership of Bank Hapoalim. This project reflects an advanced approach to visibility and customer service, as well as to multi-channel integration and the architecture supporting the application.

**ATM of the Future project –** Replacement and upgrade of the core of the ATM system, with the aim of reducing operational risks and creating a technological foundation for future advanced services.

**Cash Management –** Aggregation of information from multiple banks for business clients. Development of cash-flow forecast tools for financial managers at large business firms.

**Data infrastructures –** Building infrastructure as a foundation for projects based on customer data and value offers. Development of a generic transportation engine for databases, allowing rapid loading without the need for development.

**Scope of investment**

Costs of the information-technology system are recorded as assets in the financial statements only during the development stage of the IT system. Costs that can be capitalized as assets include direct costs of hardware, services, and labor.

Other costs, such as pre-project costs, software development costs that do not exceed the materiality threshold, absorption and training costs, routine maintenance costs, administrative costs, and other costs that cannot be attributed directly to software development are recognized as an expense in the statement of profit and loss as they arise.

## 7.4. Human capital

### Human-resources strategy

Human-resources strategy is multi-annual, and is derived from the strategy of the Bank, its business needs, and trends in the banking industry and in the labor market. The strategy is centered on nurturing and management of human resources, and on the creation of a supportive, agile organizational infrastructure.

Accordingly, the Human Resources Division has set itself the mission of leading human capital into the new world of work, shaping an advanced employee experience and sophisticated management tools, and creating strategic shared value for employees, managers, and the Bank.

The strategic plan encompasses five main areas of activity:

- **The new world of work –** Formulation and implementation of plans and processes to increase organizational agility and mobility; processes for quantitative and qualitative planning of human resources, including construction of a banker profile; updating and simplifying the system of occupations and positions; and adapting remuneration and wage systems.
- **People analytics –** Developing models for insight into people.
- **Employee experience –** A new development approach, and development of value offers for employees.
- **Advanced management tools –** Technological tools to aid decision-making and rational management of human resources.
- **Strategic shared value –** Social business ventures and encouragement of diverse employment.

Table 7-2: Data regarding the headcount of the Bank Group, in terms of positions[1][2]

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Annual average | Year-end balance | Annual average | Year-end balance |
| **Bank** | | | | |
| In Israel | **9,069** | **8,809** | 9,475 | 9,236 |
| Abroad | **216** | **212** | 252 | 220 |
| Bank total | **9,285** | **9,021** | 9,727 | 9,456 |
| **Subsidiaries** | | | | |
| In Israel | **188** | **182** | 193 | 197 |
| Abroad | **250** | **224** | 308 | 276 |
| Subsidiaries total | **438** | **406** | 501 | 473 |
| Bank Group total | **9,723** | **9,427** | 10,228 | 9,929 |

(1) The number of positions also includes translation of overtime costs into employee positions, plus the positions of external personnel who are not employees of the Bank but who provide labor services as required for the adjustment of manpower needs in the course of routine operations and for the introduction of projects, less 334 positions of employees whose wages were capitalized to fixed assets in 2018 (2017: 343 positions).

(2) The data of the Isracard Group are not included in these data, including restatement of comparative figures. For details, see Note 1G to the Financial Statements.

Principal changes in the headcount of the Bank Group in 2018 in comparison to the end of 2017 are set out below. The number of positions at the Bank Group as at December 31, 2018, decreased by 502 compared with the number of positions at the end of 2017.

The decrease primarily resulted from the implementation of the efficiency plan of the Bank in Israel, and from a decrease in the number of positions at subsidiaries overseas, mainly at Bank Pozitif, and the reduction of global private banking activity.

Table 7-3: Distribution of the average number of employee positions in the Bank Group by activity segment according to the management approach[1][2]

| | **2018** | 2017 | Change |
|---|---|---|---|
| Private customers | **5,314** | 5,339 | (0.5%) |
| Small businesses | **1,375** | 1,676 | (18.0%) |
| Housing loans | **502** | 476 | 5.5% |
| Commercial | **782** | 856 | (8.6%) |
| Corporate | **683** | 605 | 12.9% |
| International activity | **563** | 739 | (23.8%) |
| Financial management | **337** | 353 | (4.5%) |
| Adjustments | **167** | 184 | (9.2%) |
| Total | **9,723** | 10,228 | (4.9%) |

(1) Includes positions of Head Office employees whose cost of employment was charged to the segments.
(2) The data of the Isracard Group are not included in these data, including restatement of comparative figures. For details, see Note 1G to the Financial Statements.

## Human resource characteristics

The average seniority of the Bank's employees was 18.3 years in 2018, compared with 17.9 years in 2017. The average age of employees of the Bank was 45.2 in 2018, compared with 44.7 in 2017.

In 2018, approximately 66.4% of all employees of the Bank were women, versus 65.7% in 2017. In the Bank's senior management (department managers at the Head Office, branch managers, and above), the percentage of women in 2018 was 45.3%, compared with 43.5% in 2017 (the percentage of women in senior management in 2006 was 29%).

The Bank's policy is to hire employees holding academic degrees, as necessary; accordingly, the percentage of these employees out of total employees of the Bank has risen steadily, from 28.1% in 1998 to 68% in 2018 (66.8% in 2017). This increase resulted from degree-holding employees hired, and from the completion of academic studies by employees of the Bank.

The policy of the Bank is to employ, promote, and make decisions concerning employees based on material considerations such as skills and performance, without discrimination on the basis of religion, race, sex, age, views, sexual orientation, disability, place of residence, etc. The Bank encourages the hiring of employees belonging to segments underrepresented in the labor market, as part of its hiring policy, in recognition of the advantages inherent in a diverse workforce in terms of a better understanding of various segments of customers, and the encouragement of innovation and creativity in an open and diverse work environment.

## Efficiency at the Bank

In 2018, the Bank continued to apply the efficiency plan in its workforce, both at the branches and at the Head Office units.

The efficiency plan also addresses various matters related to purchasing, reduction of space, and other expense items. The efficiency plan, which supports the Bank's multi-annual strategy, continues in 2018. Within this plan, employees were offered an early-retirement plan, in a track with increased severance pay or in a pension track, according to defined criteria.

With regard to the multi-annual efficiency plan approved by the Board of Directors of the Bank, see Note 22G.

## Remuneration policy and remuneration plan

The Bank aims to remunerate its employees for their work and contribution to the Bank, and to retain employees for the long term. The Bank also aspires to link employees' best interests with the best interests of the Bank and of its stakeholders, in alignment with the Bank's goals, work plans, and long-term policies, while maintaining fair employment, encouraging excellence, and fostering a culture of performance.

Employees' remuneration is usually based on three components: routine wages, annual bonuses, and long-term remuneration derived from the increase in value of the Bank's shares.

Employees of the Bank are entitled to various benefits, including participation in health insurance, participation in tuition fees, participation in costs of membership of sports centers and cultural institutions, gifts on holidays and personal occasions, and a bonus after 25 years of work.

The remuneration plan creates an alignment between the business results of the Bank as a whole over time and remuneration; it is based on profit adjusted for risk and the cost of capital, alongside negative remuneration for failure to meet objectives in the long term. The plan establishes a mechanism for long-term spreading of payments, in order to avoid encouraging risk-taking beyond the risk appetite of the Bank. Annual bonuses are calculated based on the Bank's performance (reflecting executives' responsibility for the performance of the Bank as a whole, beyond their responsibility for the specific performance of their area or unit); achievement of KPIs, including metrics related to risk management and compliance with laws, regulatory directives, and procedures; and evaluation by a supervisor.

For further details, see Notes 22 and 23 to the Financial Statements.

### Cost and wages per employee position

Table 7-4: Details of cost per employee position and salary* per employee position at the Bank (in NIS thousands)

| | **2018** | 2017 |
|---|---|---|
| Cost per employee position, excluding bonuses | **381** | 365 |
| Cost per employee position, including bonuses | **416** | 403 |
| Salary* per employee position, excluding bonuses | **234** | 223 |
| Salary* per employee position, including bonuses | **262** | 254 |

* Salary – calculated according to gross salary as paid to the employee.

## Cultivation and development of human capital

Employees' success is the success of the Bank and its customers. It is employees who guide customers and businesses and help them achieve astute conduct, make better financial decisions, move forward, and evolve. Accordingly, the bank is committed to cultivating and nurturing its human capital through continual dialogue, investment of resources in training, and the provision of tools to enable employees to advance and develop, while also caring for their health and well-being. The Bank aspires to be a preferred employer and offer its employees meaningful, influential work.

**Performance evaluation process**

The key element of the annual evaluation process is a feedback session held by managers with each of their employees to summarize the achievements of the last year and plan future objectives and development, based on work plans. The evaluation process is based on open dialogue and transparency, and supports employee empowerment and development. The process is part of an annual sequence of managerial efforts to encourage excellence and give employees evaluation, appreciation, and compensation. An additional annual process is conducted mid-year, to track the objectives and development of the employee.

Renewed thinking about this process was initiated in 2017, to consider a transition from a grading scale to a qualitative scale of skills based on position, and to consider new technologies that allow ongoing feedback.

## Organizational culture, values, and ethics

**Our Way: A Code of Values and Ethics**

The bank is undergoing a process of renewal, which also encompasses its brand and its code of ethics and conduct. We are pleased and proud to present the renewed code of ethics and conduct of the bank, "Our Way: A Code of Values and Ethics." The code is a statement of our identity and uniqueness as employees of Bank Hapoalim, and reflects the way we aspire to fulfill the bank's mission by helping people, communities, and businesses thrive and achieve well-being. The bank's position as a leading financial institution obligates us to center the customer's best interests and confidence, and to ensure that our actions are guided by our core values: professionalism; fairness and responsibility; humanity and caring; initiative and innovation. The code illuminates and elucidates the ways in which this commitment and these values are expressed on the level of behavior during the routine work of the Bank. It is designed to be used by employees and managers, in all units and at all ranks, as a compass for appropriate conduct in coping with a wide range of ethical dilemmas.

The Bank recently launched its new branding: "Poalim – With You in Every Decision." The renewed code reflects the values underlying the promise declared by the new branding, and redefines the expectations and behaviors we are all adopting and striving to uphold, among ourselves and towards our customers and other stakeholders.

**Intra-organizational communication**

Bank Hapoalim views its employees as full partners in its business and organizational processes.

Several organization-wide channels for internal communication exist, in order to increase organizational connectedness and create open and cooperative intra-organizational dialogue between management and employees, between executives and employees, and among the various units:

1. The organizational portal, which serves as a central, advanced communications channel supporting the sharing of information with employees and the absorption of intra-organizational change processes.
2. Beshutaf ("In Partnership") – An intra-organizational business network administered on the organizational portal, with the goals of boosting intra-organizational communication and promoting business through knowledge sharing and work in communities.
3. Panorama – A message distributed online to employees on a monthly basis, collecting information on various subjects published on the organizational portal. The information is divided into content areas such as strategy, products, business environment, people, and more, enabling employees to see and understand a broad picture of the organization.

4. Portal Laderech ("Portal To Go") – A mobile application designed for employees of the Bank, which allows them to continue to obtain updates and information on various organizational subjects off the premises of the Bank and beyond work hours.

Alongside the existing tools and channels, extensive processes have been approved within the work plan for 2019 to enhance organizational dialogue, under the responsibility of the Organizational Communication Center. These include guidance for strategic processes, closer connections with media and marketing efforts, and the development of new communication channels (such as an intra-organizational social network).

## A culture of continual learning

The Bank cultivates a culture of learning among its employees as part of their routine, and invests substantial resources in professional and managerial training, based on the view that constant improvement in employees' abilities supports the achievement of the Bank's strategic objectives and is in line with the Bank's vision. The Bank hires employees with academic degrees, and encourages its existing employees to obtain undergraduate and graduate degrees by providing tuition aid and adding vacation days for examinations.

**Poalim Campus –** A key arena for instilling the strategy and vision of the Bank through learning, communication, and processes promoting performance. Learning leads to personal, organizational, and business development, ensuring professional and managerial excellence for employees and executives. Learning takes place in Campus classrooms, at regional administrations, and at each employee's workstation, encompassing an extensive range of courses and coaching days on professional subjects in the content areas of banking, executive development, business and personal skills, and more.

In 2018, approximately 45,000 training days were held at the Poalim Campus, in about 700 courses. These included banking coaching days, management coaching days, courses for senior executives, banking management training, a preparatory course on economics and finance, and learning "on the ground" in regional and branch classrooms.

**Banking training –** The Banking School is responsible for training bankers in the area of professional knowledge and for imparting business skills in a manner adapted to each position holder, the needs of the position, and the strategic changes within the organization. The Banking School also works to maintain and reinforce the professional preparedness of all employees to fulfill their duties. During 2018, brief, focused training periods on a wide range of banking topics and professional coaching days for managers were developed and run; ten sessions of executive courses on various areas of banking were held.

**Learning management system (LMS) –** The system makes it possible to maintain employees' preparedness and professional skill at all times. The system contains a personalized menu for each employee, according to position and based on continual identification of needs and mapping of knowledge gaps in practice. In the branch network, employees receive weekly brief learning modules for completion, based on position. The learning modules concern all content areas in banking: current accounts, credit, foreign currency, service, regulation, and more.

**Professional film studio –** In 2017, a film studio was built at the Poalim Campus with the aim of developing professional learning videos to support the maintenance of bankers' expertise and professional skills. Videos produced at the studio provide a response to business needs by transmitting new knowledge and resolving knowledge gaps.

**Manager training and development –** The Leadership and Organizational Development Center at the Poalim Campus assists managers and units in the management of change processes, and in implementing organizational culture and values, according to the vision and strategy of the Bank. The center develops managerial capabilities, leadership, and individual empowerment for managers and employees. In 2018, over 2,500 employees and managers at various levels participated in coaching and enrichment days, and approximately 800 managers at various levels participated in development programs.

## 7.5. Segments of activity based on management approach

### 7.5.1. Private Customer Segment

**General information and segment structure**

The Bank provides a wide range of services to private customers, including routine account-management services, granting credit for various purposes, deposits, savings plans, and capital-market activity. In addition, the Bank offers services and solutions to customers with complex financial needs, through advanced products, global asset management, and a professional service package, which includes proactively initiated meetings and telephone calls and an advanced advisory system aided by decision support tools.

Services are provided to customers of the segment through a network of 225 branches, including advanced digital branches and a mobile branch, and through direct channels: self-service stations at branches and on customer premises, Poalim Online, Poalim Mobile, the Poalim by Telephone call center, contact through Facebook, and smartphone applications.

As part of the Bank's approach to service and social responsibility, the Bank considers accessibility to people with disabilities an essential issue and its duty as a business; accordingly, all of the Bank's services have been made accessible to people with disabilities.

There has been an ongoing trend of increasing banking activity through unstaffed channels (self-service automatic teller machines, the website, applications, the mobile site, and the automatic voice response at the Poalim by Telephone call center) over the last few years.

**Products and services**

As part of the Bank's strategy of enhancing value for customers and providing guidance during important life decisions, the Bank offers a wide range of products and services to its customers, including, among others, a nationwide network of digital branches (Poalim Digital), services for groups of customers with shared characteristics (Poalim Young and Poalim Gold), services via direct channels, and development of specialized applications (the Bit app and the capital market app).

**Capital-market activity –** The activity of the Bank in the capital market includes a range of activities and financial services, in various fields: trading, operations, and custody in Israeli securities (including Maof); trading in foreign securities; and research and advisory services for customers in the area of the capital market. Some of these activities are performed directly by the Bank, while others are performed by subsidiaries, each of which specializes and engages in a specified field.

**Pension advising**

The Bank offers pension advising and retirement planning services through a network of advisors located throughout Israel. The Bank is connected to the pension clearing house, and receives information through the clearing house for the purpose of providing advisory services. The Bank holds a pension advisor's license and employs licensed advisors at 22 pension advising centers. To date, the Bank has signed distribution agreements with fifteen management companies of provident funds and pension funds. The Bank, as an objective advisor, is entitled to a uniform distribution fee for the distribution of the funds, in accordance with the regulations.

In the reported year, the Bank began to provide pension advisory services for retirement planning through its network of pension advisors. A one-off pension advising fee is charged for this service, in accordance with the guidelines of the Bank of Israel.

The pension advising field is complex, and is characterized by frequent regulatory changes. The Bank monitors the changes in this area and implements them in practice.

**Marketing and distribution**

Marketing and distribution in Israel are conducted face-to-face or over the telephone at the Bank's branches, at Poalim by Telephone, and through the direct channels (self-service devices, the website, and the application), both proactively and in response to customers' inquiries. Marketing initiatives are also reflected in advertising in newspapers, on television, on the Internet, on the radio, on billboards, and at branches. In recent years, the Bank has significantly expanded its use of marketing via digital media, on the Internet and on mobile applications, which allow a targeted approach to customers according to their interests and the characteristics of their online activity.

**Customers**

The segment consists of private customers segmented based on parameters of age, net worth and/or income level, credit balances, and growth potential. Special attention is given to the elderly population, through guidance and support in the digital world.

**Competition**

The intensity of competition over customers has increased in recent years. Technological developments and growing maturity of customer groups create the potential for heightened competitive forces in the market, along with the removal of entry barriers for new players and reinforcement of small players. The competitive environment has expanded in the last few years, to encompass financial and non-bank players such as credit-card companies, insurance companies, technological and financial ventures, and other retail organizations. The implementation of the Law for Increasing Competition in the Banking System (the "Strum Law") is expected to lead to a further increase in the intensity of competition in this industry. The Bank is coping with the challenges posed by competition through segmentation adapted to customers' needs and preferences, optimal matching of value offers and services to different needs and tastes, and the development of a multi-channel, customized, available, accessible distribution network.

**Technological changes that may have a material impact on the segment**

As part of its strategy of enhancing value for customers, the Bank has developed tools and platforms aimed at allowing it to continue to solidify its leadership in the coming years.

- **Collaboration with the Technion,** in which an innovation lab was established for data-science research aimed at solving various technological and banking challenges, such as advanced risk management and forecasting the financial activity of business and private clients.
- **A new capital-market trading application,** with upgraded infrastructures aimed at enabling the Bank to quickly and adaptively integrate additional value offers for capital-market customers.
- **New features continually added to the Bit application,** including transfers to any ad-hoc beneficiary using a QR code, without the need to save the beneficiary's contact information and with no risk of error.
- **Launch of a range of service for mortgage management on the Bank's website,** such as production of a mortgage information report, application to use the Free Month benefit for a one-month hiatus from mortgage payments, and notification of early repayment of a mortgage.
- **Application for a multi-channel loan** using the mobile account-management application.

**Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment**

Heightened regulation has been evident in recent years, as part of the plan to increase competition in the banking market:

- On March 14, 2018, the Knesset plenum passed the Banking Chapter of the Bank Switching System Law (the plan for increasing competition in the banking market through the removal of barriers to switching), in the second and third readings. Pursuant to the law, banks shall allow secure online transfers for customers, within seven business days, at no cost to the customer. The law will take effect within three years.
- An update of Proper Conduct of Banking Business Directive 422, "Opening and Managing a Current Account with a Positive Balance," was issued on March 26, 2018. The objective of the update is to improve the ability of customers experiencing financial difficulties to manage an account with a positive balance, using advanced digital tools. The changes took effect on October 1, 2018.
- The Reduction of the Use of Cash and Checks Law was published in the Official Gazette of the Israeli Government on March 18, 2018. The law is aimed at reducing the extent of the use of cash and checks, mainly through the establishment of prohibitions and restrictions. With regard to cash, the law took effect on January 1, 2019. With regard to checks (Section 5 of the law), the law will take effect on July 1, 2019.
- Proper Conduct of Banking Business Directive 450, "Debt Collection Proceedings," took effect on February 1, 2018. The directive regularizes and establishes the manner of operation of a bank in collecting debts from households and small businesses.
- The Insolvency and Economic Rehabilitation Law, 2018, published in the Official Gazette of the Israeli Government in March 2018, will take effect in September 2019. Objectives of the law:
  a. To achieve economic rehabilitation of the debtor, to the extent possible;
  b. To maximize the percentage of the debt repaid to creditors;
  c. To promote the reintegration of the individual debtor into the economic system.

With regard to floating liens, the law establishes that a creditor secured by a floating lien is entitled to collect the secured debt from the funds of the floating lien, in an amount not to exceed 75% of the proceeds received from the realization of the assets of the floating lien; the secured creditor's status with respect to the remainder of the debt is the same as the status of the other general creditors.

In addition, debts with legal precedence were redefined, and are to be repaid in the order of priority established in the law.

The law will take effect eighteen months from the date of its publication in the Official Gazette of the Israeli Government (the inception date), and will apply to proceedings subject to the law that begin on or after the inception date.

However, additional transitional directives have been established in the law with regard to the application of various directives of the law, including the matter of floating liens, bankruptcy, and receivership orders.

For information regarding regulatory initiatives that may have an impact on the activity of the segment, including information regarding the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (the Strum Committee), see Note 35 to the Financial Statements.

**Table 7-5: Results of operations and principal data of the Private Customer Segment**

| | For the year ended December 31 | |
|---|---|---|
| | **2018** | 2017* |
| | NIS millions | |
| Total net interest income | **2,756** | 2,602 |
| Non-interest financing income | **11** | 13 |
| Total net financing profit | **2,767** | 2,615 |
| Fees and other income | **1,520** | 1,500 |
| Total income | **4,287** | 4,115 |
| | | |
| Provision for credit losses | **455** | 466 |
| Total operating and other expenses | **3,625** | 3,547 |
| | | |
| Profit from continued operations before taxes | **207** | 102 |
| Provision for taxes on profit from continued operations | **78** | 40 |
| Net profit attributed to shareholders of the Bank | **129** | 62 |
| | | |
| Net credit to the public at the end of the reported period | **44,099** | 45,857 |
| Deposits from the public at the end of the reported period | **187,136** | 171,518 |

* Reclassified. For additional information, see the explanation in Note 28A to the Financial Statements.

**Principal changes in net profit and balance sheet balances**

In light of the classification of the Isracard Group as a discontinued operation, as detailed in Note 1G to the Financial Statements, the segment also includes balances attributed to the credit-card activity of the Bank, which are part of continued operations. Comparative figures have been restated.

Net profit attributed to shareholders of the Bank in the Private Customer Segment totaled NIS 129 million in 2018, compared with NIS 62 million in the preceding year. The increase mainly resulted from an increase in net financing profit.

Net financing profit totaled NIS 2,767 million in 2018, compared with NIS 2,615 million in the preceding year. The increase resulted from an increase in balances of deposits from the public, along with an increase in financial spreads on deposits in foreign currency.

Income from fees totaled NIS 1,520 million in 2018, compared with NIS 1,500 million in the preceding year. The increase mainly resulted from financial product distribution fees and credit-card fees.

The provision for credit losses totaled NIS 455 million in 2018, compared with NIS 466 million in the preceding year. The decrease resulted from a decrease in the provision recorded on an individual basis, due to factors including a one-off expense recorded in the preceding year in respect of troubled debt restructuring of less than NIS 1 million. In addition, recovery of charged-off debts increased. The decrease in expenses was partly offset by an increase in the collective allowance, mainly due to an increase in automatic charge-offs.

Operating and other expenses of the segment amounted to NIS 3,625 million in 2018, compared with NIS 3,547 million in the preceding year. The increase resulted from an increase in IT expenses, fees, and marketing and advertising expenses, along with an increase in depreciation expenses of software and computer capitalization assets.

Net credit to the public totaled approximately NIS 44.1 billion as at December 31, 2018, compared with approximately NIS 45.9 billion as at December 31, 2017.

The balances also include credit to the public previously reported within the Isracard Group Segment, which is part of the continued operation of the Bank, in the amount of NIS 5.0 billion and NIS 5.6 billion as at December 31, 2018, and December 31, 2017, respectively.

Deposits from the public totaled approximately NIS 187.1 billion as at December 31, 2018, compared with approximately NIS 171.5 billion as at December 31, 2017. The increase mainly resulted from a change in customer preferences regarding the management of their passiva portfolios, due to volatility in the capital markets in the last quarter of the year.

For additional information regarding credit risk with respect to private individuals, see "Credit risk" in the section "Review of risks" in the Report of the Board of Directors and Board of Management.

## 7.5.2. Small Business Segment

**General information and segment structure**

The Bank provides a range of banking services and financial products to small businesses. The segment's activities are conducted through the Bank's nationwide branch network, in Business Departments specializing in service for business customers, and through the direct channels (see the section "Private Customer Segment" above). The segment also provides necessary services to business customers of the Corporate and Commercial Segments.

Services for the segment's customers include routine account management, alongside extensive efforts aimed at supporting and growing this segment, including targeted credit tailored to customers' needs through a wide range of products.

**Products and services**

The Bank offers a wide range of products and services to its customers within its strategy of focusing on the expansion of its activity in the Small Business Segment. In 2018, the Bank continued to grant financing to business clients through the Poalim Business Fund, in collaboration with Clal Insurance and Finance Ltd., with the aim of granting loans with attractive terms to small businesses. The Bank also continued the activity of the Financial Growth Center and the Business Guidance Center, jointly with the College of Management, Lahav, and the Sachal Fund, aimed at providing small businesses throughout Israel with knowledge and tools for business management and growth.

**Marketing and distribution**

Within the support of the Bank, a wide range of activities for small businesses were held during November and December 2018, including the Small Business Competition, in collaboration with the Yedioth Ahronoth newspaper; the Small Business Trail, in collaboration with Keshet Broadcasting and the Mako website; a campaign promoting advisory meetings for small businesses; and lectures by the Financial Growth Center within the Israel Business Trail project. This effort ended in a peak day held on December 21, 2018 – the sixth Small and Mid-sized Business Day. The central event was held in Beer Sheba, with the participation of the CEO of the Bank and members of the Board of Management, together with the city's mayor. The Chairman of the Bank and members of the Board of Management toured Mahane Yehuda Market in Jerusalem. On Business Day, all residents of Israel were invited to patronize small businesses and contribute to economic growth.

This effort was carried out in collaboration with various public entities, such as municipal authorities and mayors, Lahav (the Israel Chamber of Independent Organizations and Businesses), and more.

Marketing and distribution in Israel are conducted face-to-face or over the telephone at the Bank's branches and through Poalim by Telephone, both proactively and in response to customers' inquiries. Marketing initiatives are also reflected in advertising in newspapers, on television, on the Internet, on the radio, on billboards, and at branches. In recent years, the Bank has significantly expanded its use of marketing via digital media, on the Internet and on mobile applications, which allows a targeted approach to customers according to their interests and the characteristics of their online activity.

**Customers**

The Small Business Segment provides financial services and products to small and mid-sized businesses from a wide range of economic sectors. The segment also handles the private accounts of business clients.

**Competition**

Activity in this segment requires expertise and in-depth knowledge of the customer in order to manage credit risks; competition in this segment is therefore primarily among banks, for overall activity with customers.

Competition in this segment is reflected in the development of targeted value offers for recruitment and increased activity with customers. There are indications that financial and institutional entities may begin offering credit to small businesses in the future, which will increase competition in this area. Concurrently, the trend towards transition to direct banking channels, such as online business services and cash and check deposit machines, continues.

**Technological changes that may have a material impact on the segment**

An innovative interface was developed in 2018 for easy and efficient transfers of salaries using an application.

**Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment**

For information regarding regulatory initiatives that may have an impact on the activity of the segment, see Note 35 to the Financial Statements.

Table 7-6: Results of operations and principal data of the Small Business Segment

| | For the year ended December 31 | |
|---|---|---|
| | **2018** | 2017* |
| | NIS millions | |
| Total net interest income | **1,621** | 1,539 |
| Non-interest financing income | **3** | 1 |
| Total net financing profit | **1,624** | 1,540 |
| Fees and other income | **584** | 573 |
| Total income | **2,208** | 2,113 |
| | | |
| Provision for credit losses | **392** | 528 |
| Operating and other expenses | **1,117** | 1,087 |
| | | |
| Profit from continued operations before taxes | **699** | 498 |
| Provision for taxes on profit from continued operations | **259** | 192 |
| Net profit attributed to shareholders of the Bank | **440** | 306 |
| | | |
| Net credit to the public at the end of the reported period | **32,561** | 32,393 |
| Deposits from the public at the end of the reported period | **42,415** | 38,227 |

* Reclassified. For additional information, see the explanation in Note 28A to the Financial Statements.

**Principal changes in net profit and balance sheet balances**

In light of the classification of the Isracard Group as a discontinued operation, as detailed in Note 1G to the Financial Statements, the segment also includes balances attributed to the credit-card activity of the Bank, which are part of continued operations. Comparative figures have been restated.

Net profit attributed to shareholders of the Bank in the Small Business Segment totaled NIS 440 million in 2018, compared with NIS 306 million in the preceding year. The increase mainly resulted from a decrease in the provision for credit losses, and from an increase in net financing profit.

Net financing profit totaled NIS 1,624 million in 2018, compared with NIS 1,540 million in the preceding year. The increase resulted from an increase in balances of deposits from the public, along with an increase in financial spreads on deposits in foreign currency.

Income from fees and others totaled NIS 584 million in 2018, compared with NIS 573 million in the preceding year. The increase mainly resulted from an increase in fees for conversion differences.

The provision for credit losses totaled NIS 392 million in 2018, compared with NIS 528 million in the preceding year. The decrease resulted from an increase in recovery of charged-off debts and from a decrease in the provision recorded on an individual basis. The collective allowance also decreased, mainly in respect of sound credit.

Net credit to the public totaled approximately NIS 32.6 billion as at December 31, 2018, compared with approximately NIS 32.4 billion as at December 31, 2017.

The balances also include credit to the public previously reported within the Isracard Group Segment which is part of the continued operation of the Bank Group, in the amount of approximately NIS 1.5 billion as at December 31, 2018, compared with approximately NIS 1.2 billion as at December 31, 2017.

Deposits from the public totaled approximately NIS 42.4 billion as at December 31, 2018, compared with approximately NIS 38.2 billion as at December 31, 2017.

### 7.5.3. Housing Loan Segment

**General information and segment structure**

The Bank offers housing loans to private customers, from Bank funds as well as through government assistance programs, at Mishkan representative offices within branches located nationwide.

**Products and services**

The main activity of this segment is granting housing loans. This activity is targeted to customers who apply for a loan for one of the following purposes:

- A loan for the acquisition, construction, expansion, or renovation of a home.
- A loan for the acquisition of land for the construction of a home, or acquisition of an interest in a home.
- A loan granted with a mortgage on a home, other than for business purposes.
- A loan for the early repayment of a loan as described above.

Mortgage underwriting is performed and examined based on four essential components: repayment capability, collateral (the proposed property to be pledged), financing rate, and spreads.

**Marketing and distribution**

Marketing and distribution are carried out through Mishkan representative offices within the branches of the Bank, as well as through Poalim by Telephone and Poalim Online. Marketing and distribution activities are also conducted through various media channels, such as billboards at construction sites.

**Customers**

Customers of this segment are private customers who are granted housing loans. These include customers of the Bank, in the various categories, who conduct routine banking activities, as well as customers of other banks who take mortgages as their only activity at the Bank.

**Principal developments in the segment**

**Competition**

Mortgages are a price-oriented product: a mortgage is a highly significant economic transaction for a household, and customers therefore conduct market surveys and compare prices. Accordingly, this market is characterized by high competitiveness.

**Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment**

Extensive, dedicated regulation applies to housing loans, in addition to the general regulation applicable to credit granted by the Bank.

- Banking Bill (Service to Customers) (Amendment – Free Choice of a Land Appraiser in a Mortgage Procedure), 2018 – A bill submitted on February 19, 2018, proposes allowing borrowers in the early stage of an acquisition to choose a land appraiser, in accordance with the directives of the Land Appraiser Law, 2001, instead of choosing a land appraiser from the closed list of the bank. In order to maintain balance, the proposal would permit a bank to prepare a list of appraisers who are unacceptable to the bank, provided that reasons are given for its decision on this matter.
- The update of Proper Conduct of Banking Business Directive 329, "Limits on Granting Housing Loans," and the file of questions and answers on this subject of April 14, 2018, include clarifications on various matters and an amendment of the definition of a "reduced-price residence" to also include a replacement residence acquired at a reduced price in projects such as Mechir Lamishtaken ("Tenant Price").
- Equal Rights for People with Disabilities Law (Amendment 18), 2018 – The Equal Rights for People with Disabilities Law (Amendment 18), 2018, published in the Official Gazette of the Israeli Government on July 9, 2018, includes an arrangement between the banks, the insurance companies, and the state pursuant to which, in housing loans, insurance companies will issue insurance policies to people with disabilities who are eligible under the law, and banks will grant loans in an amount double the insured amount, but no greater than NIS 1 million, except with the consent of the bank, for a period not to exceed fifteen years, except with the consent of the bank. The insurance policy will take effect after a 2.5-year qualification period. During the qualification period, the heirs of an eligible person who passes away as a result of a disability cannot file a life-insurance claim, and the risk that it will not be possible to collect the mortgage payments is borne by the bank. After receiving a mortgage and a special insurance policy, customers can apply to the state and are eligible for financial assistance with monthly mortgage payments.
- Proper Conduct of Banking Business Directive 449, published on July 10, 2018, concerns the simplification of agreements for customers. The directive establishes a concise, uniform format to be presented to customers on the first page of a credit agreement, containing the specific material information of the agreement, with the aim of making it easier for customers to read credit agreements (including in housing credit) and enabling them to become familiar with the material terms of the credit and more easily compare credit products offered to them. The directive constitutes implementation of the Fair Credit Law, which was scheduled to take effect in November 2018, pursuant to which the Banking Supervision Department is authorized to establish forms for the disclosure of information in the various credit agreements. Inception has been postponed to May 2019.
- Amendment to the Banking Law (Service to Customers) concerning deferral of monthly payments on a housing loan under special circumstances.

Pursuant to the amendment to the law, passed on December 31, 2018, banks must allow customers to choose a loan track in which they are permitted to postpone payments on a housing loan in the following cases:

- The borrower has been unemployed for one year;
- The borrower is sick or injured, and is unable to work for a period exceeding three months;
- The borrower has given birth and has not returned to work for a period of six months.

The payments can be postponed for three months each time, over the course of one year, and no more than three times throughout the period of the loan.

The amendment will apply to housing-loan contracts signed beginning June 27, 2019.

In addition, there are several draft directives and bills in the area of housing loans, primarily the following:

- The Banking Bill (Service to Customers) (Amendment for the Deferral of Housing Loan Payments due to Death), according to which in the event of the death of a borrower, at the request of the person obligated to repay the loan, the bank must defer the mortgage payments, for a period not to exceed twelve months, at no cost and without charging arrears interest. The bank is obligated to give notice of the possibility of requesting a deferral, when it becomes aware of the death of a borrower. The amendment was published in the Official Gazette of the Israeli Government on January 7, 2019, and will apply to housing-loan contracts signed beginning six months from the date of publication.
- Draft amendment to the Sale Regulations (Residences) (Assurance of Investments of Purchasers of Residences) (Qualification Regarding Payments Towards the Price of the Residence), which would change the stages of the Sale Law in a manner that changes the method of release of monies in the execution of loans for the purchase of residences from a contractor in a project without financing.
- Amendment to Proper Conduct of Banking Business Directive 451 on various subjects, aimed at improving certain processes in the area of housing loans in order to ease the processes for customers. This includes a mechanism to facilitate customers' updates of insurance policies they provided when receiving a housing loan; a requirement for banks to add the lists of assessors working with them to the in-principle approval issued to the customer; a requirement for banks to accept assessments addressed to another bank by an assessor acceptable to that other bank, except in the event of a reasonable refusal; and a directive requiring banks to present to customers, online or through an application, up-to-date information necessary in order to examine the possibility of early repayment.
- Banking Ordinance Amendment Bill (No. 33) (Housing Loan Agreement with no Capitalization Fee due to Early Repayment), 2018, a bill aimed at eliminating the repayment fee in the event of early repayment of a housing loan, in order to make it easier for customers to refinance their loans and thereby reduce the costs of their mortgage. The bill passed the first reading, despite the objection of the Supervisor of Banks, who proposed an amendment of the legislation pursuant to which banks would be obligated to offer customers a choice between a housing loan with no early-repayment fee and a housing loan with an early-repayment fee. In light of the dispersal of the Knesset, the bill will not make progress until the next Knesset.

Table 7-7: Results of operations and principal data of the Housing Loan Segment

| | For the year ended December 31 | |
|---|---|---|
| | **2018** | 2017* |
| | NIS millions | |
| Total net interest income | **696** | 549 |
| Fees and other income | **61** | 65 |
| Total income | **757** | 614 |
| | | |
| Provision (income) for credit losses | **37** | (3) |
| Total operating and other expenses | **246** | 241 |
| | | |
| Profit from continued operations before taxes | **474** | 376 |
| Provision for taxes on profit from continued operations | **173** | 145 |
| Net profit attributed to shareholders of the Bank | **301** | 231 |
| | | |
| Net credit to the public at the end of the reported period | **81,454** | 74,124 |

* Reclassified. For additional information, see the explanation in Note 28A to the Financial Statements.

**Principal changes in net profit and balance sheet balances**

Net profit attributed to shareholders of the Bank in the Housing Loan Segment totaled NIS 301 million in 2018, compared with NIS 231 million in the preceding year. The increase resulted from an increase in net financing profit, partly offset by an increase in the provision for credit losses.

Net financing profit totaled NIS 696 million in 2018, compared with NIS 549 million in the preceding year. The increase resulted from an increase in the volume of credit and from an increase in financial spreads on credit.

The provision for credit losses totaled NIS 37 million in 2018, compared with income in the amount of NIS 3 million in the preceding year. The increase mainly resulted from an increase in the volume of activity.

Credit to the public totaled approximately NIS 81.5 billion as at December 31, 2018, compared with approximately NIS 74.1 billion as at December 31, 2017.

For additional information regarding risks in the housing-loan portfolio, see Section 3.2.6 in the chapter "Review of risks" in the Report of the Board of Directors and Board of Management.

### 7.5.4. Commercial Segment

**General information and segment structure**

The Commercial Segment provides a wide range of banking services to middle-market business clients. The segment operates through business centers located throughout Israel, and through business branches, which provide operational services for the accounts of the segment's customers. As part of the Bank's strategic drive to deepen its activity with commercial clients experiencing growth, and to expand the services offered to these clients, the Commercial Banking Division began to implement a structural change and a change in its operational approach in the second half of 2017. Within these changes, several new business centers were established, and operational activities from the business branches will be centralized in a number of national service centers. This process will support the growth of the Commercial Segment, with the aim of providing better, more adapted service to customers.

**Products and services**

Services offered by the Bank to customers of the segment include credit for routine operations and investment financing, guarantees, letters of credit, foreign trade, and transactions in financial and derivative instruments. Investment services are also provided, in the various channels: foreign currency, shekels, securities, etc.

The Commercial Segment also provides banking services to clients who operate in the construction and real-estate sector. These banking services include the provision of credit to customers, as well as the issuance of guarantees of various types, including guarantees to buyers of homes pursuant to the Sale Law.

**Complementary activities**

- **FX Trader –** an online trading system with a convenient platform accessible to customers.
- **Business Direct Credit –** loans within an approved credit facility, which can be taken through the Business Online website.
- **Digital empowerment –** development of adapted solutions in response to the needs of the customers of the Corporate Banking Area; expansion of the infrastructure for activity on the business website and business application.
- **Cash Management –** An advanced digital financial tool that offers a broad financial overview, including cash flows and trend analysis for the business, and assists customers in making decisions, quickly and conveniently.

**Marketing and distribution**

Marketing of banking products and services and distribution to customers are conducted through the Customer Relationship Managers in the Commercial Division and the Sales Management Department in the headquarters of the Commercial Division, and in collaboration with the headquarters of the Area. The communication channels commonly used in local banking are available to customers, such as branches, Poalim by Telephone, the website, etc.

**Customers**

The main areas of activity of the segment's customers are industry, commerce, and construction and real estate. These customers primarily operate in the domestic market; the segment also serves customers engaged in import and export activities. More extensive activity with the customers of this segment is part of the Bank's strategy. Customers of the segment were influenced by the positive trend in activity, globally and in Israel, particularly the strong condition of households, the substantial increase in incoming tourism, a high level of infrastructure investments, and low financing costs. However, several indicators point to cooling of the increase in private consumption, and the redirection of purchases from brick-and-mortar stores to online commerce is apparent. In the housing market, the volume of activity continued to cool, as reflected in a relatively low level of construction starts and sales of new homes, and in a decrease in prices of homes over the last few months.

**Competition**

The segment is characterized by a high level of competition. The main competitors are the banking corporations. In the area of credit, competition is reflected both in interest rates and fees offered to customers by the competing banks, and in related terms such as the financing rates which competitors are willing to approve. In addition, alternatives to bank credit are available in the market to some of the segment's customers, such as public and private issues and credit granted by non-bank financial institutions.

**Technological changes**

The segment makes use of technological systems to manage processes of analysis of customers' condition, control, and marketing. The Bank applies an ongoing process of improvement in these systems. This process also includes components relevant to serving the segment's customers. The enhancement of the quality and sophistication of the Bank's systems is an important factor in improving the level of service for the segment's customers and in creating additional possibilities for expanding activities with them.

**Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment**

See the section "Corporate Segment," below.

**Regulatory initiatives**

See the section "Corporate Segment," below.

Table 7-8: Management approach activity segments – results of operations and principal data of the Commercial Segment

| | For the year ended December 31 | |
|---|---|---|
| | **2018** | 2017* |
| | NIS millions | |
| Total net interest income | **1,006** | 928 |
| Non-interest financing income | **6** | 7 |
| Total net financing profit | **1,012** | 935 |
| Fees and other income | **388** | 381 |
| Total income | **1,400** | 1,316 |
| | | |
| Income in respect of credit losses | **(37)** | (3) |
| Total operating and other expenses | **506** | 503 |
| Profit from continued operations before taxes | **931** | 816 |
| Provision for taxes on profit from continued operations | **345** | 315 |
| Net profit attributed to shareholders of the Bank | **586** | 501 |
| | | |
| Net credit to the public at the end of the reported period | **37,489** | 33,859 |
| Deposits from the public at the end of the reported period | **25,259** | 24,653 |

* Reclassified. For additional information, see the explanation in Note 28A to the Financial Statements.

**Principal changes in net profit and balance sheet balances**

Net profit attributed to shareholders of the Bank in the Commercial Segment totaled NIS 586 million in 2018, compared with NIS 501 million in the preceding year. The increase resulted from an increase in net financing profit and from a decrease in the provision for credit losses.

Net financing profit totaled NIS 1,012 million in 2018, compared with NIS 935 million in the preceding year. The increase mainly resulted from an increase in credit volumes and in financial spreads on foreign-currency deposits.

The Commercial Segment recorded income in respect of credit losses in the amount of NIS 37 million in 2018, compared with income in the amount of NIS 3 million in the preceding year. The change resulted from an increase in income from the recovery of charged-off debts. This change was partly offset by an increase in the collective allowance, mainly in respect of sound credit.

Net credit to the public totaled approximately NIS 37.5 billion as at December 31, 2018, compared with approximately NIS 33.9 billion as at December 31, 2017.

Deposits from the public totaled approximately NIS 25.3 billion as at December 31, 2018, compared with approximately NIS 24.7 billion as at December 31, 2017.

### 7.5.5. Corporate Segment

**General information and segment structure**

The Corporate Segment specializes in providing financial services to large corporations in Israel. Credit granting constitutes its principal area of activity. The segment operates through three sectors, each of which contains specialist Customer Relationship Managers (CRMs):

- Real estate;
- Industry, commerce, and hotels;
- Infrastructures and energy.

The sector also specializes in complex financing products, including foreign-trade financing, financing of working capital, financing of assets overseas, complex financing transactions, syndication, and credit-risk sales. Another unit is responsible for the digital interface between business clients and the Bank.

Also operating within the Corporate Banking Area is the Special Credit Division, which coordinates the handling of customers experiencing financial difficulties in the Corporate and Commercial Segments and endeavors to assist them in restructuring by providing business support.

**Products and services**

Services offered to customers of the segment include financing of routine operations, financing of investments, financing of infrastructure projects based on the BOT/PFI method, financial services, foreign-trade transactions, and transactions in financial derivatives. Services provided to customers operating in the construction and real-estate sector include financing of construction projects, granting credit to customers, and issuing various types of guarantees, including guarantees to buyers of homes pursuant to the Sale Law.

The segment has complementary activities identical in essence to those provided by the Commercial Segment. For further details, see the section "Commercial Segment," above.

**Marketing and distribution**

Banking products are marketed and distributed to customers of this segment through Customer Relationship Managers in the Corporate Division, in collaboration with the headquarters of the Area. As a key element of this sales platform, product experts, working closely with the CRMs, are at the disposal of the segment's customers, in the areas of the dealing room, investment advising, foreign trade, foreign currency, current accounts, and more. CRMs are in continuous contact with the customers they serve, in order to respond to their banking needs, market the Bank's products, and tailor financing solutions to various transactions.

The communication channels commonly used in local banking are available to customers, such as branches, Poalim by Telephone, the website, etc.

**Customers**

Customers of the segment are large corporations in Israel, mainly operating in the areas of real estate, industry, the capital market, communications, commerce, hotels, infrastructure, and energy.

**Competition**

The level of competition in this area is high; the competition is reflected in service, prices, financing terms, and rapid response. The Bank Group mainly competes in this area against the four other major banking groups in Israel, as well as foreign banks with representative offices in Israel. Alternatives to bank credit are available in the market to some of the segment's customers, such as public and private issues and credit granted by non-bank financial institutions. The average level of issues in 2018 was slightly lower than in 2017; loans granted by banking entities increased.

**Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment**

- **Update of Proper Conduct of Banking Business Directive 313, "Limits on the Indebtedness of Borrowers and Groups of Borrowers" –** An update of the directive was issued in November 2018, which updated the credit conversion coefficient in bank guarantees for buyers of homes granted pursuant to the Sale Law (Residences) (Assurance of Investments of Purchasers of Residences), 1974, such that the bank guarantee for the buyer of a home, as noted, would be weighted at 30% (versus 50% previously) if the residence has not yet been transferred to the buyer, and at 10% after the transfer of the residence to the buyer. The aforesaid update of the directive reduces the extent of the indebtedness of the sector (as defined in Proper Conduct of Banking Business Directive 315, "Limit on the Indebtedness of a Sector") in the construction and real-estate sector.
- **Management of customers' credit risk in derivative instruments and securities –** The new Proper Conduct of Banking Business Directive 330, "Management of Credit Risk Inherent in Customers' Trading Activity in Derivative Instruments and Securities," establishes requirements for management of the risk, with an emphasis on activity with customers who engage in speculative activities. The directive establishes relevant definitions, risk-management principles, and collateral requirements. The directive is in effect as of July 1, 2018.
- The Insolvency and Economic Rehabilitation Law, 2018, published in March 2018, will take effect on September 15, 2019. For further details, see Note 35 to the Financial Statements.

It is emphasized that in addition to the limits established in the directives of the Banking Supervision Department, the Board of Directors sets additional limits on credit concentration from time to time. As at the reporting date, the Bank is in compliance with the established limits.

## Limits on joint loan arrangements (consortium arrangements)

Over the last few years, the Supervisor of Competition has issued a number of letters establishing several conditions for entering into loan arrangements the parties to which are banking corporations or institutional entities or similar entities incorporated outside of Israel. The validity period of the letters was extended from time to time. The most recent letter was in effect until June 14, 2018, the inception date of the Restrictive Trade Practices Rules (Type Exemption for Joint Loan Arrangements) (Temporary Order), 2018.

A type exemption, as noted, establishes the conditions under which a bank is exempt from applying to the Authority for approval of a joint loan arrangement (i.e. granting credit to a corporation jointly with another lender or other lenders included in the definition of a "lender" in the exemption directive).

In light of the type exemption, in any case in which the Bank intends to grant a loan to any corporation, jointly with banking corporations or financial institutions or similar entities incorporated outside Israel, the Bank must examine the fulfillment of the conditions established in the exemption directives, according to the various alternatives and the circumstances of each transaction. The exemption directives are in effect for three years, and do not apply to joint loan arrangements signed before the inception date of the type exemption.

Table 7-9: Management approach activity segments – results of operations and principal data of the Corporate Segment

| | For the year ended December 31 | |
|---|---|---|
| | **2018** | 2017* |
| | NIS millions | |
| Total net interest income | **1,370** | 1,349 |
| Non-interest financing income | **113** | 67 |
| Total net financing profit | **1,483** | 1,416 |
| Fees and other income | **445** | 436 |
| Total income | **1,928** | 1,852 |
| | | |
| Income for credit losses | **(333)** | (824) |
| Total operating and other expenses | **615** | 625 |
| Profit from continued operations before taxes | **1,646** | 2,051 |
| Provision for taxes on profit from continued operations | **611** | 797 |
| Net profit attributed to shareholders of the Bank | **1,035** | 1,254 |
| | | |
| Net credit to the public at the end of the reported period | **71,937** | 65,494 |
| Deposits from the public at the end of the reported period | **44,150** | 42,207 |

* Reclassified. For additional information, see the explanation in Note 28A to the Financial Statements.

**Principal changes in net profit and balance sheet balances**

Net profit attributed to shareholders of the Bank in the Corporate Segment totaled NIS 1,035 million in 2018, compared with NIS 1,254 million in the preceding year. The decrease mainly resulted from a decrease in income in respect of credit losses, partly offset by an increase in net financing profit.

Net financing profit of the segment totaled NIS 1,483 million in 2018, compared with NIS 1,416 million in the preceding year. The increase mainly resulted from profits in respect of the sale of loans, and from an increase in net interest income, as a result of an increase in credit volumes and in financial spreads on deposits in foreign currency.

Income from fees and others totaled NIS 445 million in 2018, compared with NIS 436 million in the preceding year. The increase mainly resulted from an increase in securities activity fees.

Income in respect of credit losses totaled NIS 333 million in 2018, compared with income in the amount of NIS 824 million in the preceding year. The change mainly resulted from a decrease in income from the recovery of charged-off debts.

Net credit to the public totaled approximately NIS 71.9 billion as at December 31, 2018, compared with approximately NIS 65.5 billion as at December 31, 2017.
Deposits from the public totaled approximately NIS 44.2 billion as at December 31, 2018, compared with approximately NIS 42.2 billion as at December 31, 2017.

### 7.5.6. International activity

**General information**

The international activity of the Bank Group includes the New York branch and representative offices, Bank Hapoalim Switzerland, and Bank Pozitif in Turkey, as well as relationships with banks around the world.
Most of the international business banking activity of the Bank is conducted through the New York branch, which focuses on the following areas: providing comprehensive banking services to Israeli companies operating in the United States, as well as to local companies and clients, including credit, foreign trade, deposits, and dealing-room services. The New York branch also offers its customers FDIC deposit insurance. The branch also grants credit through the acquisition of participations.
Activity with banks includes trading through dealing rooms, cooperation in foreign trade and international trade financing, project financing, clearing of payments, and capital-market services (see the section "Credit exposure to foreign financial institutions").
The Bank is acting to discontinue all of its activities overseas in the area of global private banking, and to close the subsidiaries that provide the related services. Among other matters, these actions have led to a decrease in the extent of assets of foreign residents deposited with the Bank Group.

**Legislative restrictions, standards, and special constraints applicable to international activity**

In addition to the rules and limits imposed by the Bank of Israel on the international activity of the Bank Group, pursuant to legislation and regulations as well as the provisions of permits granted by the Bank of Israel for the acquisition of subsidiaries and/or opening of branches abroad, the activity of the international banking sector in the various countries is subject to standards relevant to the nature of activity of the Group in the countries in which its business is conducted (cross-border regulations) and to regulatory supervision by various government agencies in the countries in which the Bank's overseas offices operate, including requirements concerning capital, holdings of liquid assets, compliance, the prohibition of money laundering, etc.
The Banking Supervision Department issued a directive concerning supervision of overseas offices in May 2018. The directive expresses the position of the Banking Supervision Department that banking corporations should concentrate their activity only in central offices, in a limited number of jurisdictions, and at a size that allows each banking corporation to allocate appropriate management resources, focus its activity, and attain expertise in managing the risks in such jurisdictions. The Bank is preparing to implement this directive.

For details regarding the investigation of the Bank Group's business with American customers, see Note 25D to the Financial Statements; for details regarding the investigation of the Bank in connection with senior FIFA officials, see Note 25E to the Financial Statements.

**Main international banking units**

**New York branch**

Most of the Bank Group's international business banking is conducted through the New York branch.

The New York branch has activity in the middle-market sector in the United States, through the development of relationships with and granting of direct credit to local commercial clients. The branch also operates in the syndication market, as a complementary activity. The Bank has representative offices in Los Angeles, New Jersey, Miami, and Toronto, Canada.

**Bank Hapoalim (Switzerland) Ltd.** (Hapoalim Switzerland)

In September 2017, the Bank decided to act to discontinue the activity of Hapoalim Switzerland, through the sale of its assets or by other means.

On April 11, 2018, the Bank signed an agreement with Bank J. Safra Sarasin AG and Banque J. Safra Sarasin (Luxembourg) S.A. for the sale of the global private banking customer asset portfolio of Bank Hapoalim Switzerland at its branches in Switzerland and Luxembourg.

Most of the customer assets in Switzerland and Luxembourg were transferred to the buyer in November 2018, in accordance with the agreement.

**Banque Hapoalim (Luxembourg) S.A.** (Banque Hapoalim Luxembourg)

A banking subsidiary (wholly owned by the Bank), mainly engaged in granting credit to companies with an affinity to Israel operating in Europe. In light of the recent changes in the volume of international activity, in regulatory risks, the Bank is examining the continuation of this activity.

**Activity of the Bank in Turkey**

The Bank Group currently operates in Turkey through Bank Pozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi (hereinafter: "Bank Pozitif"), which specializes in corporate banking.

The Bank's stake in Bank Pozitif stands at 69.8%. For further details, see Section 2.6 in the Report of the Board of Directors and Board of Management.

The Bank has decided to act to discontinue the activity of Bank Pozitif, through the sale of its assets or by other means, and at this stage is acting to reduce the portfolio.

**Global Private Banking Center in Tel Aviv**

Provides foreign residents with private-banking services and products.

Table 7-10: Results of operations and principal data of the International Activity Segment

| | For the year ended December 31 | |
|---|---|---|
| | **2018** | 2017* |
| | NIS millions | |
| Total net interest income | **471** | 506 |
| Non-interest financing income | **89** | 58 |
| Total net financing profit | **560** | 564 |
| Fees and other income | **136** | 234 |
| Total income | **696** | 798 |
| | | |
| Provision for credit losses | **101** | 37 |
| Total operating and other expenses | **1,757** | 1,138 |
| Loss from continued operations before taxes | **(1,162)** | (377) |
| Tax benefit on loss from continued operations | **31** | 21 |
| Net profit (loss): | | |
| Before attribution to non-controlling interests | **(1,193)** | (398) |
| Attributed to non-controlling interests | **20** | 19 |
| Net loss attributed to shareholders of the Bank | **(1,173)** | (379) |
| | | |
| Net credit to the public at the end of the reported period | **14,136** | 12,902 |
| Deposits from the public at the end of the reported period | **19,017** | 20,858 |

* Reclassified. For additional information, see the explanation in Note 28A to the Financial Statements.

**Principal changes in net profit and balance sheet balances**

The loss attributed to shareholders of the Bank in the International Banking Segment totaled NIS 1,173 million in 2018, compared with NIS 379 million in the preceding year. The increase in loss mainly resulted from an increase in the provision in connection with the investigation of the Bank Group's business with American customers at Bank Hapoalim Switzerland and in the related legal expenses, and from costs arising from the decision to discontinue the activity of Hapoalim Switzerland. The increase in loss was partly offset by profits of the business activity in the United States.

The principal changes in the results of international activity are set out below:

- Net profit of the New York branch totaled approximately NIS 82 million in 2018, compared with net profit in the amount of NIS 70 million in the preceding year. The increase mainly resulted from middle-market activity, due to an increase in net interest income, as a result of an increase in credit balances and in financial spreads, partly offset by an increase in the provision for credit losses.

- The loss of Bank Hapoalim Switzerland totaled approximately NIS 1,209 million in 2018, compared with a loss in the amount of approximately NIS 373 million in the preceding year. The increase in loss mainly resulted from an increase in the provision in connection with the investigation of the Bank Group's business with American customers at Bank Hapoalim Switzerland and in the related legal expenses, and from costs arising from the decision to discontinue the activity of Hapoalim Switzerland during the second half of 2017. The increase in loss was partly offset by income from the sale of part of the private banking customer asset portfolio.
- The loss of the Bank Pozitif Group totaled approximately NIS 43 million in 2018, similar to the preceding year. The loss in 2018 mainly resulted from an increase in the allowance for credit losses. By contrast, the loss in 2017 mainly resulted from an increase in provisions for legal claims.

Total credit to the public in international activity amounted to approximately NIS 14.1 billion as at December 31, 2018, compared with approximately NIS 12.9 billion as at December 31, 2017.

- Credit to the public at the New York branch totaled approximately NIS 13.1 billion as at December 31, 2018, compared with approximately NIS 10.6 billion as at December 31, 2017. Credit in middle-market activity totaled approximately NIS 11.7 billion, of which a total of approximately NIS 5.0 billion in respect of syndication transactions, compared with approximately NIS 9.8 billion as at December 31, 2017, of which a total of approximately NIS 4.2 billion in respect of syndication transactions.
- Credit to the public at Bank Hapoalim Switzerland totaled approximately NIS 0.6 billion as at December 31, 2018, compared with approximately NIS 1.3 billion as at December 31, 2017. The decrease resulted from the completion of the transaction for the sale of the private banking customer asset portfolio in Switzerland during the fourth quarter of 2018, and from the continued reduction of the activity of Hapoalim Switzerland.
- Credit to the public at Bank Pozitif in Turkey totaled approximately NIS 0.5 billion as at December 31, 2018, compared with approximately NIS 0.9 billion as at December 31, 2017, further to the Bank's policy of reducing the credit portfolio at Bank Pozitif.

Total deposits from the public in international activity amounted to approximately NIS 19.0 billion as at December 31, 2018, compared with approximately NIS 20.9 billion as at December 31, 2017.

- The balance of deposits from the public at the New York branch totaled approximately NIS 18.1 billion as at December 31, 2018, compared with approximately NIS 14.5 billion as at December 31, 2017. In middle-market activity, deposits totaled approximately NIS 6.8 billion as at December 31, 2016, compared with approximately NIS 6.7 billion as at December 31, 2017. The balance of brokered CD deposits from the public totaled approximately NIS 11.3 billion, compared with approximately NIS 7.8 billion as at December 31, 2017, due to an increase in activity volumes.
- The balance of deposits from the public at Bank Hapoalim Switzerland totaled approximately NIS 1.0 billion as at December 31, 2018, compared with approximately NIS 4.4 billion as at December 31, 2017. The decrease resulted from the transaction for the sale of the private banking customer asset portfolio in Switzerland, and from the continued reduction of the activity of Hapoalim Switzerland, as noted above.

### 7.5.7. Financial Management Segment

**General information and structure**

The activity of this segment includes:

- Activity in the banking book – Management of assets and liabilities, including the management of market and liquidity risks (for details regarding these risks, see the section "Review of risks" in the Report of the Board of Directors and Board of Management), through the establishment of internal transfer prices (see below), investment portfolio management, issuance of bonds and notes, and the execution of transactions in derivative financial instruments. The segment's activity in the banking book is mostly conducted through the Asset and Liability Management (ALM) units in Israel and abroad, and through the Nostro Investment Management Unit, which is responsible for managing the portfolio of government and corporate bonds.
- Activity in the trading books mainly includes the provision of services to the Bank's customers for the execution of transactions in Israeli and foreign securities, financial instruments in Israeli shekels, foreign currency, and interest rates, through the dealing rooms, as well as support for the development and pricing of sophisticated financial products.

Most of the income of the segment derives from exposure management in the banking book and in the trading book, and from spreads and fees in the dealing rooms' activity and operational services for customers. In addition, the segment includes the results of the management of a portfolio of shares and bonds and investments in equity-basis investee companies in calculating its income.

ALM activity also encompasses the coordination of management of the financial assets and liabilities of the Bank Group (including foreign subsidiaries) in foreign currency on a global level, and coordination of investment and trading activity in foreign currency and derivatives at the New York branch and at the banking subsidiaries with the local units. This segment is also responsible for managing relationships with banks and financial institutions around the world, and is responsible for providing services to customers operating in Israel in a range of areas, including the capital and money markets.

**Activities, products, and services**

**The banking book – asset and liability management**

The Asset and Liability Management Division (hereinafter: the "ALM Division") of the Bank is responsible for managing the assets and liabilities of the Bank, over the range of activities of the various segments. The division sets internal transfer prices (hereinafter, "Wholesale Rate"; see further details below) for raising and allocating resources for the use of the various segments. The Wholesale Rate constitutes the basis for the activity of the various segments with the Bank's customers, and is used to debit and credit the segments. The Wholesale Rate also serves as a means for market and liquidity risk management.

The Wholesale Rate is set by the ALM Division, and reported on a monthly basis to the Board of Management Committee and on a quarterly basis to the Board of Management and Board of Directors of the Bank. The Wholesale Rate is set taking the following factors into consideration, among other matters: market prices of comparable resources (by linkage segment, duration, and type of interest); cost of issuing bonds of the Bank and similar banking corporations; government bond yields; the Bank of Israel interest rate; and macro-economic data. In addition, information is examined concerning principal and interest flows (gap reports) of the Bank by dates of interest-rate changes and by maturity dates; interest-rate exposures of the Bank (sensitivity of value and sensitivity of income); overall VaR of the Bank; expected transactions; daily balances and performance; and more. The committees also discuss limits and the desired position, in line with the Bank's policy.

The Bank accords high importance to raising resources that are stable and highly diversified. The Bank has varied sources of financing, primarily arising from deposits from the public in Israel, the large majority of which are from retail customers, with no dependence on any single depositor or group of depositors. The Bank also takes deposits from large institutional and corporate clients. In addition, the Bank raises resources through bonds and capital instruments issued by the Bank Group.

Funding in foreign currency includes deposits of private customers and corporate customers in Israel, foreign residents, Global Private Banking customers, Israeli companies abroad, issues of CDs and other instruments secured by the FDIC in the United States, and issues of bonds abroad.

As part of market and liquidity risk management, the Financial Markets and International Banking Area maintains a bond portfolio, consisting of government bonds and corporate bonds. The portfolio is managed by the Nostro Investment Management Unit of the Bank.

Nostro investment activity is aimed at increasing flexibility in the management of the banking book, while taking advantage of opportunities to improve returns on liquidity surpluses and diversify areas of activity. The investment portfolio is part of the banking book, and includes investments in bonds and shares, in Israel and overseas.

### Trading activity – dealing room (OTC and derivatives)

The Bank provides comprehensive services to its customers through its dealing rooms (OTC and derivatives), allowing them to operate in a range of financial instruments, with various underlying assets, for trading, protection, and risk-hedging purposes. Transactions with the Bank's customers are conducted in accordance with the credit limits allocated to them by the credit authorities at the Bank, and on the basis of the Bank's internal models that define credit exposures for transactions executed in the dealing room. Awareness of the activities offered by the dealing room has grown steadily in recent years, leading to demand for a broader range of products with a higher level of sophistication. In response to these needs, and in order to preserve the Bank's standing as a leader and innovator, the product range in Israel includes complex products such as derivatives (which include interest-rate options in shekels), exotic options, and sophisticated interest-rate products.

In view of the low interest-rate environment, in recent years customers have increasingly used structured products, which include deposits or bonds whose interest terms are determined according to the terms of a derivative embedded in the debt instrument.

As part of the Bank's trading activity, the dealing room is one of the primary market makers in government bonds, and serves as a market maker in most of the products in which it operates.

### Brokerage services

In addition to the dealing room, a trading room in Israeli securities and a trading room in foreign securities are also in operation, providing service to institutional clients and to private customers with high levels of activity.

### Services for financial asset managers

The Financial Asset Manager Services Unit encompasses activities related to the provision of various services to financial-asset managers: managers of provident funds, study funds, and pension funds, mutual-fund managers, and investment-portfolio managers.

The activity of the unit encompasses the operation of the financial assets noted above and the provision of comprehensive banking services to entities that manage these assets. Services include asset revaluation, production of control reports, production of reports to government agencies, bookkeeping, management of accounts and rights of provident-fund members, and calculation of returns.

The Bank has agreements for the provision of operational services to provident-fund management companies. In the area of mutual funds, the Bank has service agreements with mutual-fund management companies.

On December 31, 2018, the volume of assets of provident funds and study funds for which the Bank supplies operational services totaled approximately NIS 85.3 billion. The value of assets of mutual funds for which the unit provides services related to account management, at various volumes, totaled approximately NIS 76.2 billion.

The Bank has decided to discontinue the activity of providing provident fund and study fund operational services to the management companies for which it provides operational services. Rather than immediate cessation, the activity will be discontinued through a process coordinated with all of the relevant parties; this process is expected to be performed over the course of 2019. Concurrently, in June 2017, the Bank entered into an agreement with Malam Provident and Pension Funds Ltd. for the sale of a license, unlimited in duration, for the use of the software used by the Bank to provide the operational services.

### Services for financial institutions

The Banks and Financial Institutions Department is responsible for managing relationships and business connections with banks and financial institutions around the world. These relationships support the Bank's varied business activities, including foreign trade, trading in foreign currency, deposits, derivatives, and securities.

Within its activity with foreign banks and financial institutions, the Bank provides a wide range of services, including sub-custody services for leading foreign custodian banks active in Israel in the area of securities.

## Competition

In recent years, Israel's financial markets have grown progressively more sophisticated. This is particularly notable in the broader range of products available to investors and market players. Various types of tradable instruments as well as derivative instruments are becoming more accessible.

Competition in all areas related to the activity of the dealing room and the securities trading rooms is extensive and intense. The principal competitors are the four major banking groups in Israel, foreign banks, and other financial companies specializing in this area.

**Customers**

The segment provides diverse services to all customers of the other segments at the Bank, both through the Bank's branches and CRMs, and through direct contact with large clients. The dealing room conducts marketing activity with foreign financial institutions, which has led to substantial expansion of the volume of activity with these customers (in the range of products for which the Bank serves as a market maker).

**Collaboration agreements**

During the routine course of business, the Bank, and within it the Financial Management Segment, maintain extensive ties with the world's leading financial institutions. Business relations between the Bank and these entities in the various capital markets are based, among other things, on standard international arrangements, such as: framework agreements supporting the activity of dealing rooms, special agreements to minimize credit risks aimed at limiting credit risk in derivatives (credit support annex), or activity via international clearinghouses, to minimize counterparty risks and settlement risks in transactions in foreign currencies and in interest rates.

Table 7-11: Management approach activity segments – results of operations and principal data of the Financial Management Segment[1]

| | For the year ended December 31 | |
|---|---|---|
| | **2018** | 2017* |
| | NIS millions | |
| Total net interest income | **967** | 937 |
| Non-interest financing income | **1,159** | 444 |
| Total net financing profit | **2,126** | 1,381 |
| Fees and other income | **153** | 146 |
| Total income | **2,279** | 1,527 |
| | | |
| Provision (income) for credit losses | **(2)** | 1 |
| Total operating and other expenses | **471** | 495 |
| Profit from continued operations before taxes | **1,810** | 1,031 |
| Provision for taxes on profit from continued operations | **564** | 372 |
| Profit from continued operations after taxes | **1,246** | 659 |
| The Bank's share in profits of equity-basis investees, after taxes | **4** | 17 |
| Net profit: | | |
| Before attribution to non-controlling interests | **1,250** | 676 |
| Attributed to non-controlling interests | **15** | 16 |
| Net profit attributed to shareholders of the Bank | **1,265** | 692 |
| | | |
| Net credit to the public at the end of the reported period | **831** | 1,224 |
| Deposits from the public at the end of the reported period | **34,283** | 49,881 |

* Reclassified. For additional information, see the explanation in Note 28A to the Financial Statements.

(1) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented within information regarding supervisory activity segments as a separate segment.

**Principal changes in net profit and balance sheet balances**

Net profit attributed to shareholders of the Bank in the Financial Management Segment totaled NIS 1,265 million in 2018, compared with NIS 692 million in the preceding year. The increase mainly resulted from an increase in net financing profit.

Net financing profit of the segment totaled NIS 2,126 million in 2018, compared with NIS 1,381 million in the preceding year. The increase mainly resulted from an increase in profit from investment in shares and bonds. In addition, a change occurred in the differences between the fair value of derivatives that are part of the asset and liability management of the Bank and the measurement of the same assets on an accrual basis. Income from exchange-rate differences increased, mainly due to hedging of currency exposures of non-monetary items. In addition, the rate of increase in the known CPI rose between the periods.

Net credit to the public totaled approximately NIS 0.8 billion as at December 31, 2018, compared with approximately NIS 1.2 billion as at December 31, 2017.

Deposits from the public totaled approximately NIS 34.3 billion as at December 31, 2018, compared with approximately NIS 49.9 billion as at December 31, 2017. The decrease resulted from a decrease in deposits of large institutional investors.

## 7.5.8. Adjustments

This section includes activities of the Bank Group with negligible volumes, each of which does not form a reportable segment. This includes, among other matters: (1) the results of the subsidiaries Poalim Sahar Ltd., Poalim Capital Markets Investment House Ltd., and Peilim Investment Portfolio Management Ltd.; (2) income from computer services for companies consolidated in the past, until the discontinuation of this activity during 2017; (3) legal and other provisions and expenses in connection with the investigation of the Bank Group's business with American customers not attributed to international activity; (4) adjustments of inter-segmental activities.

The segment also includes the activity of the Isracard Group, which is classified as a discontinued operation; see below.

**Isracard Group – discontinued operation**

**General information**

As noted in Note 1G to the Financial Statements, the activity of the Isracard Group is classified as a "discontinued operation," beginning with the financial statements for the second quarter of 2018. Accordingly, the reports have been restated such that balance sheet balances of assets and liabilities and results attributed to the discontinued operation, which, prior to this classification, were presented in a separate segment of activity – the "Isracard Group," are presented separately from the continued operations, within the "Adjustments" segment. For further details, see Note 1G to the Financial Statements. For further details regarding the separation from the Isracard Group, see Note 15E to the Financial Statements.

Currently, the Bank Group's principal activities in the area of credit cards are conducted through companies operating in the area of means of payment under a single managerial and operational umbrella, referred to hereinafter as the "Isracard Group." The core activity of the Isracard Group is the issuance and clearing of Isracard credit cards, a private brand under its ownership, as well as of MasterCard, Visa, and American Express cards under licensing agreements.

### Credit-card issuance

The Isracard Group issues credit cards to customers of banks that have entered into arrangements with the Isracard Group, including the Bank, Mizrahi Tefahot Bank, First International Bank, Bank Yahav, Bank Otsar Hahayal, Bank Massad, Bank of Jerusalem, and Union Bank. The Isracard Group also issues cards directly to customers ("non-bank cards"), primarily members of various consumer clubs and groups with which the Isracard Group has contracted.

Customers of the Isracard Group in the area of issuance are private customers, employees of corporations, and corporations (as well as corporate purchasing, including B2B – business to business payments).

As part of its issuance activity, the Isracard Group issues and operates a range of additional products and services, such as cards providing revolving credit, fuel cards and fuel devices, gift cards, specialized purchasing cards, and rechargeable cards. In addition, the Isracard Group grants general-purpose credit and loans based on credit facilities of credit cards, loans for the purchase of vehicles, various options for payment in installments, and information and confirmation services.

In addition to the Isracard Group, two credit-card companies controlled by banks currently operate in Israel in the area of issuance and clearing of credit cards: Cartisei Ashrai Lelsrael Ltd. (hereinafter: "CAL"), controlled by Discount Bank, and Leumi Card Ltd. (hereinafter: "Leumi Card"), controlled by Bank Leumi.

The number of cards issued by the Isracard Group as at December 31, 2018, is 5.2 million, compared with 5.0 million as at December 31, 2017.

The volume of activity in Isracard Group cards reached NIS 155.1 billion in 2018, compared with NIS 144.3 billion in the preceding year.

### Credit-card clearing

In agreements signed for the purpose of providing clearing services, the clearing credit-card company undertakes a commitment to the merchant, subject to fulfillment of the terms of the agreement, to settle the debits to the merchant undertaken by holders of the cards which it clears when purchasing goods or services from the merchant. The Isracard Group also offers merchants a range of additional financial services, such as loans and advances (advancement of payments in respect of transactions executed), advance payments, and sale-slips discounting, as well as marketing and operational services, including options for payment in installments, flexible crediting dates, targeted information, and sales promotion campaigns.

Customers of the Isracard Group in the area of credit-card clearing are numerous diverse merchants that have entered into agreements with it, including various government agencies, as well as companies that provide discounting services to merchants.

Credit-card clearing is characterized by a very high level of competition. Competition in the area of clearing is focused on recruiting new merchants for clearing agreements and retaining existing merchant customers of the company. Another aspect of this competition is reflected in the development of financial and operational products and services for merchants.

In addition to the Bank Group, the two credit-card companies controlled by banks listed above operate in the area of clearing in Israel.

### Regulatory changes

Isracard, CAL, and Leumi Card are parties to an arrangement approved by the Restrictive Trade Practices Tribunal in 2012 concerning mutual clearing of Visa and MasterCard cards. From July 1, 2014 to the end of the period of the arrangement (December 31, 2018), the average issuer fee will stand at 0.7%. Within this arrangement, an outline was established for gradual reduction of the rate of the interchange fee. On February 25, 2018, the Bank of Israel released the final outline for the reduction of the interchange fee. The interchange fee in deferred debit transactions will be reduced according to the following trajectory: a decrease in the interchange fee from 0.7% to 0.6% beginning January 1, 2019, and a decrease in the interchange fee from 0.6% to 0.575% beginning January 1, 2020. Terms of exemption from approval of a restrictive arrangement – As part of the arrangement, a request for an exemption from approval of a restrictive arrangement was submitted to the Supervisor of Competition in March 2012 with regard to an operational arrangement regulating the operation of the common interface of the company, Leumi Card, and CAL, concerning the implementation of the arrangement between them (the agreement is updated from time to time by the parties). On April 25, 2018, the Supervisor of Competition gave a ruling regarding the granting of an exemption, with conditions, from approval of a restrictive arrangement, until December 31, 2023, with regard to the aforesaid operational agreement. Among other matters, the exemption addresses the requirement for credit-card companies to add to the arrangement, equitably and at no cost, any issuer, clearer, or entity acting on their behalf with activity relevant to the arrangement that asks to join the arrangement; to make all information necessary for the purpose of joining the arrangement and acting in accordance with the arrangement available to them; and to perform reasonable adjustments, as necessary, in such a manner as to enable new players to join the arrangement and act in accordance with its directives. In addition, the company, Leumi Card, and CAL are prohibited from taking actions that may impede the entry of new competitors in the fields of issuance or clearing, or the penetration of means of payment that are alternatives to credit cards, such as debit cards, all as detailed in the terms of the exemption. The exemption also includes a directive pursuant to which, beginning July 1, 2021, monetary transfers between issuers and clearers in respect of transactions executed with a single payment shall be performed no later than one day after the date of transmission of the transaction by the business ("daily crediting").

In December 2018, the Banking Supervision Department issued an amendment to Proper Conduct of Banking Business Directive 472, "Clearers and Clearing of Charge-Card Transactions." The amendment states, among other matters, that a clearer is permitted to refuse to provide clearing services to a business, or to refuse to perform a particular transaction for the business, in circumstances in which a substantial suspicion arises that the activity of the business constitutes customer fraud, misleading of customers, or unfair influencing of customers, and the refusal will be considered a reasonable refusal, among other matters for the purposes of the Banking Law (Service to Customers), as detailed in the directive. Note that the Charge Cards Bill (Amendment – Cancellation of Credit Charge due to a Transaction with a Supplier in Violation), 2018, passed the first reading in December 2018; this bill also concerns customer fraud by businesses.

In November 2018, the Banking Supervision Department issued an amendment of Proper Conduct of Banking Business Directive 470, "Charge Cards." The draft amendment states, among other matters, that a credit-card company is permitted to send an issuance contract to a customer by any means of delivery customarily used at the company, rather than only by mail, in accordance with the rules detailed in the draft.

Reliefs for credit-card companies – In July and August 2018, the Banking Supervision Department issued amendments to Proper Conduct of Banking Business Directives 470 ("Charge Cards"), 221 ("Liquidity Coverage Ratio"), 203 ("Credit Risk"), and 313 ("Limits on the Indebtedness of Borrowers and Groups of Borrowers") (together: the "Directives"), aimed at facilitating the activity of credit-card companies (as defined in the Directives) following their separation from the banks, as part of the measures taken by the Bank of Israel to promote the implementation of the reform for increasing competition. The following directives, among others, were established in the amendments: (1) Beginning February 1, 2019, a bank shall transfer monies in respect of transactions issued by the bank (including via joint issuance) to an issuance operator on the date on which the issuance operator is required to transfer these monies to a clearer, without dependence on the date of debiting of the customer, and without dependence on the identity of the clearer to which the issuance operator transfers the consideration. (2) New operating agreements between a bank issuer and an issuance operator signed until January 31, 2022, shall be submitted to the Supervisor of Banks. For this purpose, renewal of an existing agreement in which a material change has been performed, in the opinion of the bank or of the issuance operator, shall be considered a new agreement. If the bank issuer is a bank with extensive activity, the operating agreement shall be subject to approval by the Supervisor. (3) A credit-card company shall receive weighting for capital-adequacy purposes as if it is a banking corporation, even after its separation from a banking corporation. (4) The debt of a credit-card company shall be weighted for capital-adequacy purposes as if it is a banking corporation, including with regard to circumstances entailing more severe risk weighting, such as in the case of a rating lower than B-. (5) Beginning on the date of publication of Directive 221, a credit-card company that fulfills the terms specified in the directive will not be required to comply with the liquidity coverage ratio, but it will be required to hold liquid assets based on an internal model congruent with the characteristics of its activity. Within the amendments to Directive 313, the following directives were established, among others: (1) The exposure of a banking corporation to a "credit-card company borrower group," with deduction of the amounts permitted according to the directive, shall not exceed 15% of the capital of the banking corporation, similar to the limit applicable to exposure to a "banking borrower group." (2) The indebtedness of a banking borrower group to a credit-card company shall be subject to the limit for a "banking borrower group," and the limit shall be adjusted to the new status of the credit-card companies, such that they are included, as relevant, in the aggregate limit applicable to large borrowers (borrowers whose indebtedness constitutes more than 10% of the capital of the banking corporation). In addition, indebtednesses of a banking borrower group to a credit-card company shall be included in the aggregate limit for large borrowers. (3) For five years from the date of publication of the directive in binding form, the indebtedness of a banking borrower group to a credit-card company shall not be subject to the limit for a "banking borrower group," and shall not be included in the aggregate limit for large borrowers. (4) In view of the present deviation from Directive 313, banking corporations will be required to reduce credit exposures to "credit-card company borrower groups" in a gradual manner, within three years of the date of separation of the credit-card company from the banking corporation, as this date is defined in the Strum Law.

In January 2018, the Banking Supervision Department issued an amendment to Proper Conduct of Banking Business Directive 470, in which, among other matters, directives were added, further to the Strum Law directives, concerning the infant competitor protections granted to the credit-card companies to be separated from the banks, and to other new issuers to be established, with regard to a bank with a large volume of activity contacting a customer, before the 45-business-day period preceding the end date of the card contract, in cases of a material change in the financial condition of the customer, or in order to reduce the credit facility of a charge card. The aforesaid amendments took effect on April 21, 2018.

Implementation of the use of the EMV security standard – In June 2015, the Banking Supervision Department issued a directive on implementation of the EMV security standard in both issuance and clearing, which has also been embedded in Proper Conduct of Banking Business Directive 470 and in additional guidelines. Among other matters, the directive and the guidelines subsequently provided by the Banking Supervision Department, which include amendments to Proper Conduct of Banking Business Directive 472, address schedules for the issuance of cards that support the EMV standard and for the connection of terminals that support the standard to the new charge-card system, as well as for inception of a mechanism for redirecting liability from the issuer to the clearer. The application of the liability shift mechanism was scheduled for January 1, 2019. In November 2018, the Banking Supervision Department issued an amendment to Directive 472, according to which directive regarding the liability shift mechanism, at small businesses whose annual turnover with clearers in 2018 did not exceed NIS 5 million, would take effect on January 1, 2020. In December 2018, the Banking Supervision Department issued a draft for comments from the public of an amendment to Directive 472 according to which the directive regarding the liability shift mechanism at fuel-station businesses would take effect on January 1, 2022.

### Regulatory initiatives

#### *Bills and proposed legislation*

Banking Regulations (Licensing) (Increase of the Ceiling) – The Banking Regulations (Licensing) (Increase of the Ceiling Pursuant to Section 21(B)(8)(a) of the Law), 2018, were published in the Official Gazette of the Israeli Government in July 2018, stating that the ceiling in the aforesaid section, with regard to the possibility of issuing bonds to the public against non-bank loans, under the restrictions and conditions established in the Banking Law (Licensing), would stand at the amount of NIS 5 billion, instead of NIS 2.5 billion. In December 2018, the Knesset plenum passed the Banking Bill (Licensing) (Amendment – Encouragement of Competition in the Credit Market), 2018, in the first reading. Pursuant to the bill, among other matters, the aforesaid ceiling will increase to NIS 20 billion.

Money Laundering Prohibition Order – The Money Laundering Prohibition Order (Duties of Identification, Reporting, and Record Keeping of Credit Service Providers for the Prevention of Money Laundering and Financing of Terrorism) was published in the Official Gazette of the Israeli Government on March 14, 2018. The order regulates the duties pertaining to the prohibition of money laundering and financing of terrorism of an entity required to receive a license to grant credit, pursuant to Chapter C of the Law for Supervision of Financial Services (Regulated Financial Services), 2016 (the "Supervision of Regulated Financial Services Law"), which is an entity listed in the third addendum to the Money Laundering Prohibition Law, and of a provider of discounting services, and an aggregator as a provider of credit services. This order took effect on March 15, 2018. On May 23, 2018, the Ministry of Finance issued a draft amendment of the aforesaid order, which, among other matters, expands the directives applicable to the activity of an aggregator as a provider of credit services, such that they also apply to the activity of an aggregator as a provider of a service in a financial asset.

Regulation of payment services – The recommendations of the final report of the Interministerial Committee for the Promotion of the Use of Advanced Means of Payment were published in June 2017. The objective of the committee was, among other matters, to promote the use of advanced means of payment, while adapting legal and technological infrastructures to this activity. As part of the recommendations of the committee: (1) In November 2017, the Bank of Israel issued a call for information regarding the establishment of infrastructure for clearing of immediate payments in Israel, the objective of which, as described therein, was, among other matters, to receive proposals for the promotion of at least one form of infrastructure, centralized or decentralized, to support clearing of immediate payments in the Israeli economy. The establishment of such infrastructure is expected to increase competition in the payment system, through, among other matters, the entry of new players who will propose solutions for the performance of immediate payments throughout the chain of execution of the transaction. The infrastructure will allow clearing of existing and future advanced means of payment, and will allow clearing of payment orders executed through payment applications of various entities. (2) The Payment Services Law, 2019, was published in the Official Gazette of the Israeli Government on January 9, 2019. Among other matters, the law regulates various aspects of the relationships between a payment service provider (the issuer of a charge card) and a payer (the charge-card holder), and between a payment service provider (the clearer) and a beneficiary (the business), during the use of means of payment. This includes the determination that fund transfers from a clearer to a business should be immediate (subject to the statements in the law, including an agreement between a clearer and a business regarding a different reasonable date, and the possibility for a clearer to agree otherwise with a business whose annual turnover is greater than NIS 30 million), and the establishment of general directives concerning the execution of payment orders and the relevant liability arrangements, and directives concerning criminal penalties and monetary sanctions for the violation of certain sections of the law. Under the law, matters mentioned in the Charge Cards Law will be regulated by the Payment Services Law, and the Charge Cards Law will be rescinded upon the inception of the law. In general, the inception date of the Payment Services Law is one year from the date of its publication, and it will also apply to means of payment issued before the inception date and to debiting authorizations granted before the inception date, all as detailed in the law. (3) In August 2018, the Ministry of Finance issued the Memorandum of Law for Supervision of Financial Services (Regulated Financial Services) (Provision of Payment Services), 2018, which is aimed at regulating another area within the Law for Supervision of Financial Services (Regulated Financial Services), 2016, addressing the regulation of all payment service provision activities. These services include administration of a payment account that allows the transfer of payments for products and services, issuance of means of payment, clearing of payment transactions, and provision of automated teller machine services. According to the explanatory materials, the regulation is expected to encourage competition by allowing non-bank players to enter the market and develop alongside the existing banking players. Note that the memorandum does not include the regulation of payment initiation services, which, according to the explanatory materials of the memorandum of law, will be completed later. Pursuant to the memorandum, among other matters (including through indirect amendments to the Banking Licensing Law): (a) no person shall engage in the provision of payment services (including issuance and clearing of means of payment, all as defined in the memorandum) unless they hold the appropriate license, or they are one of the entities exempt from the obligation to obtain a license (including a clearer, as defined in the memorandum and according to the conditions therein); (b) the holder of a license to provide payment services shall not engage in an occupation other than payment services, and shall not control a corporation engaged in providing payment services, or hold more than 10% of the means of control of such a corporation, unless they have notified the Supervisor of this intention, in writing, and the Supervisor

has not given notice of an objection, within the time frame and under the conditions specified in the memorandum. In the period from the inception date of the law (one year from the date of its publication; in this Section 21 – the "Inception Date") until two years have elapsed from the Inception Date (in this Section 21 – the "Transitional Period"), the holder of a license to provide payment services shall not engage in an occupation that is not a payment service, and shall not control a corporation engaged in an occupation that is not a payment service, or hold more than 10% of the means of control of such a corporation, except with the approval of the Supervisor and in accordance with the terms of the approval (all of the foregoing terms, as defined in the memorandum). (c) A clearer shall not engage in an occupation other than clearing of payment transactions or the provision of payment services, and shall not control a corporation engaged in an occupation other than clearing or the provision of payment services, as noted, or hold more than 10% of the means of control of such a corporation, unless the clearer has notified the Governor of this intention, in writing, and the Governor has not given notice of an objection, within time frame and under the conditions specified in the memorandum. During the Transitional Period, a clearer shall not engage in an occupation other than clearing of payment transactions or the provision of payment services, and shall not control a corporation engaged in an occupation other than clearing or the provision of payment services, as noted, or hold more than 10% of the means of control of such a corporation, except with the approval of the Governor and in accordance with the terms of the approval. In addition, during the aforesaid Transitional Period, a clearer shall be permitted to control or hold means of control in a corporation engaged in occupations not permitted to clearers, as noted above, provided that the Supervisor has determined in directives that this occupation is one of the types of occupations in which a corporation controlled by a clearer is permitted to engage; in this regard, the Supervisor is authorized to establish different directives for different types of clearers, under the conditions specified in the memorandum. The memorandum also includes directives that are included in other laws, such as with regard to a hosted clearer and the obligation of an issuer with an extensive volume of activity to contract with a clearer for cross-clearing of transactions in the charge cards that it issues, under the conditions specified in the memorandum.

In addition, on December 2, 2018, the Ministry of Finance issued a draft of the Banking Regulations (Service to Customers) (Transfer of Information from an Issuer to a Banking Corporation), 2018, in which, among other matters, directives were established regarding the transfer of the aforesaid information from an issuer to a banking corporation for the purpose of presentation to a customer; and a draft of the Order for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments) (Postponement of Inception of Section 7G of the Banking Law (Service to Customers)), 2018, pursuant to which the inception date of the foregoing will be postponed by seven months, to December 31, 2019.

A clearer shall not refuse to contract with an aggregator, and shall not prevent a contractual engagement between an aggregator and a supplier, due to unreasonable causes. Further, a clearer shall not collect additional consideration from a business that contracts with an aggregator, beyond the consideration collected by the aggregator from the business for the service provided to the business by the aggregator. The Minister of Finance is authorized, under certain circumstances, to determine the consideration to be paid by an aggregator to a clearer and the terms of the contractual engagement between them.

A clearer shall allow a clearer with a clearing license that is not directly connected to the payment system and executes clearing through another clearer (a "Hosted Clearer") to execute clearing through it. The Governor of the Bank of Israel, with the consent of the Minister of Finance, will establish rules to regulate the status and activity of a Hosted Clearer, including the terms of the hosting. The Banking Rules (Terms of Hosting of a Clearer), 2018, issued in June 2018, include a reference to the provision of an IT infrastructure for the clearing of transactions by a Hosted Clearer, and a reference to the terms of the hosting, the hosting agreement, the price of hosting, and restrictions on clearing by a Hosted Clearer.

For details regarding the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (the Strum Committee), see Note 35 to the Financial Statements.

### Additional activities

In addition to activities related to the issuance and clearing of credit cards, as described above, the Isracard Group has the following additional activities: check settlement guaranteeing and check discounting; granting of consumer credit other than through credit cards; direct sale-slips discounting; and factoring, including factoring for purchasing.

### Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Other Segment totaled NIS 12 million in 2018, compared with a loss in the amount of NIS 7 million in the preceding year.

The loss from continued operations attributed to shareholders of the Bank in this segment totaled NIS 352 million in 2018, compared with a loss in the amount of NIS 320 million in the preceding year. The increase in loss mainly resulted from an increase in the provision in connection with the investigation of the Bank Group's business with American customers and from an increase in the related legal expenses. The increase in loss was partly offset by a tax shield in the amount of NIS 97 million recorded in respect of the legal expenses related to the investigation.

In addition, the Other Segment includes net profit attributed to a discontinued operation, in the amount of NIS 364 million in 2018, compared with NIS 314 million in the preceding year. The increase in profit of the Isracard Group mainly resulted from an increase in interest income, as a result of an increase in balances of credit to private individuals, and an increase in income from fees, as a result of an increase in volumes of activity.

The balance sheet balances of credit-card activity included in this segment include credit to the public, which constitutes part of the discontinued operation, in the amount of approximately NIS 14.4 billion as at December 31, 2018, compared with NIS 12.8 billion as at December 31, 2017. For further details, see Note 1G to the Financial Statements.

### 7.6. Restrictions and supervision of the activity of the banking corporation

#### General information

The Bank operates under laws, regulations, and directives, some of which are unique to the banking system, and some of which, even if not unique, affect material parts of its activity. The Banking Ordinance, the various banking laws, and the Proper Conduct of Banking Business Directives issued from time to time by the Supervisor of Banks constitute the central legal foundation for the Bank Group's activity. Among other matters, they define the boundaries of the activities permitted to the Bank, the activities permitted to the subsidiaries and related companies of the Bank Group, the terms of control and ownership of such companies, the relationships between the Bank and its customers, the usage of the Bank's assets, and the manner of reporting such activity to the Supervisor of Banks and to the public.

In addition, the Bank is subject to extensive legislation regulating its activity in the capital market, both on behalf of its customers and on its own behalf (e.g. in the areas of investment advising and customer portfolio management, pension advising, securities laws, and restrictions on insurance activity).

Other laws on specific topics impose specific duties and rules on banks, including the Bank. Examples include the legislation related to the prohibition of money laundering and terrorism financing, the Credit Data Law, legislation related to housing loans, guarantee laws, etc.

Additional legislation related to the Bank's activity has a strong influence on its conduct. Noteworthy in this area are execution laws, liquidation and receivership laws, laws referring to specific segments (local authorities, mortgage takers, home buyers, the agricultural sector), and various tax laws.

The Bank's activity is subject to supervision and auditing by the Banking Supervision Department as well as other supervisory agencies in specific areas of activity, such as the Israel Securities Authority; the Supervisor of the Capital Market, Insurance, and Savings at the Ministry of Finance; and the Supervisor of Competition. These agencies carry out audits at the Bank, from time to time, concerning the various areas of activity.

The Bank and its subsidiaries work to comply with the duties imposed upon them under the said legal provisions.

The legislation passed following the recommendations of an inter-ministerial committee headed by the Director General of the Ministry of Finance (the Bachar Committee) establishes the possibility, with regard to most of the laws applicable to the activity of the Bank, to impose monetary sanctions for violations of the directives of the laws and the secondary legislation (including circulars and guidelines) issued in the past or future under such laws.

With regard to material regulatory initiatives, see Note 35 to the Financial Statements.

## 7.7. Ratings of the Bank

The following ratings have been assigned to the Bank by rating agencies in Israel and abroad:

Table 7-12: Ratings

| | Rating agency | Long-term foreign currency | Short-term foreign currency | Rating outlook | Last update |
|---|---|---|---|---|---|
| **Israel – sovereign rating** | | | | | |
| | Moody's | A1 | P-1 | Positive | July 2018 |
| | S&P | AA- | A-1+ | Stable | February 2019 |
| | Fitch Ratings | A+ | F1+ | Stable | April 2018 |
| **Bank Hapoalim** | | | | | |
| | Moody's | A2 | P-1 | Stable | October 2018* |
| | S&P | A- | A-2 | Positive | November 2018 |
| | Fitch Ratings | A | F1 | Stable | January 2019 |

| | Rating agency | Long-term local currency | Short-term local currency | Rating outlook | Last update |
|---|---|---|---|---|---|
| **Local rating (in Israel)** | | | | | |
| | S&P Maalot | AAA | | Stable | November 2018 |
| | Midroog | Aaa | P-1 | Stable | December 2018 |

* In June 2018, Moody's added a Counterparty Risk Rating (CRR) for the Bank, at A1/P-1, with no change to the short-term and long-term ratings noted in the table.

## 7.8. Poalim in the community – social involvement and contribution to the community

### Strategy and vision

As part of the Bank Hapoalim Group's vision, strategy, and corporate values, the Bank is committed to an active, leading role in the community, alongside its business leadership and economic initiatives.

This involvement, implemented through "Poalim for the Community," is part of an advanced managerial approach stating that an organization that operates within the community, and draws both its employees and customers from it, is an integral part of that community, and as a business leader, should strengthen the community and take a leading role in the advancement and improvement of conditions for all members of the community, especially those who are underprivileged.

In the spirit of this business philosophy, the Bank conducts a varied and extensive range of community-oriented activities that take the form of social involvement, monetary donations, and large-scale volunteer activities in which both members of management and employees participate. Activity on behalf of the community is an important factor in cultivating employees' sense of pride and cohesion.

In strategic work carried out at Poalim for the Community, focus areas of Poalim for the Community for the coming years were established.

### Ongoing activities

All of the Bank's community-oriented activity is organized within Poalim for the Community; part of the activity is conducted through the "Poalim for the Community Foundation (Registered Non-Profit Organization)," and the rest is conducted through other channels, described below.

Poalim for the Community devotes special attention to work with children and adolescents, with the aim of advancing the generation of the future. However, the activity of Poalim for the Community is extensive and varied, and includes other target groups as well.

In 2018, Poalim for the Community focused on projects in the area of education, aimed at children, adolescents, and specific population groups, with special emphasis on teaching sensible financial behavior.

Through the areas of activity described below, and through the various projects promoted by the Bank Group, the Group's involvement in the community in 2018 was expressed in a financial expenditure of approximately NIS 36 million. The budget for this activity is determined each year by a committee headed by the Chairman of the Board of Directors. This decision is made separately for each specific year, and approved within the overall budget of the Bank.

Details of the various channels and projects follow.

**Poalim Volunteers employee volunteer project –** Several Bank units collaborate on this project, aimed at assisting employees interested in volunteering for community activities. The Bank units involved are the Human Capital, Advising, and Resources Area; the Employee Union; the Head of Community Relations; regional managements in the Retail Banking Area; and the Ruach Tova and Matan foundations. Within this collaboration, employees are offered a wide variety of volunteering possibilities, for groups, branches, or individuals. Other Bank employees also volunteer individually with the Bank's assistance. A specialized unit was established in 2011 to handle this activity, and continues to operate.

**Poalim for the Community Foundation –** Monetary donations to the numerous organizations supported by the Bank Group are made via the Poalim for the Community Foundation. In 2018, as in previous years, the Poalim for the Community Foundation contributed to a large number of causes, including assistance for children and youth, strengthening disadvantaged population groups, and support for educational institutions, employment, accessibility, culture, welfare, health care, and science. Through the foundation, the Bank contributes to higher-education institutions, to scholarships for university students and underprivileged schoolchildren, and to the realization of educational initiatives and enrichment programs for children and youth, as well as for children who are hospitalized and need special assistance in order to progress in their studies. The Poalim for the Community Foundation contributes to the advancement of culture and the arts, and makes donations to various activities throughout Israel, focusing on enrichment programs for children and youth via innovative educational projects.
Another important area in which the Poalim for the Community Foundation is a regular donor is health care. The Poalim for the Community Foundation supports several medical centers, with donations intended mainly to improve conditions of patients' treatment and hospitalization. The foundation also promotes projects aimed at integrating persons with disabilities into community life. In addition, the foundation contributes to organizations that help realize wishes of children suffering from cancer.
Community-oriented sponsorships were also granted in the areas noted above.

**Read & Succeed community project –** Poalim for the Community is committed to changing the reading habits of Israeli children and youth. In addition to its ongoing community activities, the foundation decided in 2004 to initiate a focused effort to bring about fundamental changes in the reading habits of Israeli children and youth. The project continued during 2005-2018. The goal of the project is to raise public awareness of the encouragement of reading. The project includes a public informational campaign, funding of story hours throughout Israel, activities during National Book Week, and collaboration with the Children's Channel and other media outlets.

**Donations of computers and accompanying equipment –** The Bank is aware of the paramount importance of investment in technology for the education and advancement of children and youth, and accordingly donates computers and accompanying equipment each year.
In 2018, the Bank donated approximately 524 computer systems, as well as additional accompanying equipment.

**Poalim for Culture and Nature in Israel –** The Bank believes that closeness to our heritage and culture is of the utmost importance, and has therefore resolved to make it possible for all Israeli parents and children to visit and enjoy a variety of sites throughout Israel during holidays, without causing a heavy financial burden for the families. During Passover 2005, the Bank launched a special project in which all Israelis were invited to visit sites throughout Israel free of charge during the holiday week. Since then, this project has become an annual tradition, which continued during Passover in 2018.

**Support for culture and the arts –** Each year, the Bank contributes to the promotion of culture and the arts through donations and sponsorships; for example, the Bank provides support to museums throughout Israel. The Bank sponsors several internationally recognized cultural institutions committed to leadership and excellence in their field: the Israel Philharmonic Orchestra; the Israeli Opera; Cameri, Habima, and Gesher theaters; and others.
The Bank has also held art exhibitions at its Head Office, with revenues devoted to the various foundations that participated in this initiative.

**Activity in the Arab community –** The Bank places special emphasis on the promotion of projects targeted to the Arab community, including donations dedicated to a wide range of projects in this sector.

**Poalim from Three to Five project –** The Bank, in cooperation with the ORT organization, participates in the initiative of the Technion to help students from geographically remote communities with lower socio-economic backgrounds improve their academic achievements in mathematics. The goal is to increase the number of applicants for the five-credit-point matriculation exam in mathematics by about 5%.

**Financial education project with the ORT chain –** The Bank is committed to an effort, in collaboration with the ORT chain, to promote financial education and education on sensible economic conduct for adolescents, and to improve financial dialogue between parents and children.
With the completion of the development of the learning environment and the writing of learning materials over recent months, the program is being rolled out to all of the schools in the ORT chain.

**Matan – Investing in the Community** (hereinafter: "Matan") **–** Since 1999, the Bank has engaged in activity on behalf of the community in cooperation with the Matan Foundation. Through the Matan Campaign, employees engaged in volunteer work gain awareness of community needs and the importance of giving, and share this message with their colleagues. The model is based on partnership between management and employees in the workplace. All donations to Matan by employees and management are designated for a wide variety of community causes, aimed at supporting and strengthening disadvantaged groups in society. Donations are allocated in a special procedure that involves an examination of needs and effectiveness. Bank employees participate as volunteers on the Matan fund-designation committee, which decides on the distribution of the funds in the community, and as Matan Observers, assisting in the monitoring process of use of the funds donated.
Matan is committed to transferring donations to organizations or community causes chosen by the employee.

# 8. Appendices

## 8.1. Statement of profit and loss and balance sheet – multi-period data

Table 8-1: Consolidated statement of profit and loss for the years 2014-2018 – multi-period data[1]

| | For the year ended December 31 | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | NIS millions | | | | |
| Interest income | **11,672** | 10,613 | 9,962 | 9,660 | 10,529 |
| Interest expenses | **(2,766)** | (2,189) | (2,004) | (1,950) | (2,908) |
| Net interest income | **8,906** | 8,424 | 7,958 | 7,710 | 7,621 |
| Provision for credit losses | **613** | 202 | 179 | 437 | 405 |
| Net interest income after provision for credit losses | **8,293** | 8,222 | 7,779 | 7,273 | 7,216 |
| **Non-interest income** | | | | | |
| Non-interest financing income (expenses) | **1,445** | 652 | 1,163 | 1,034 | 874 |
| Fees | **3,318** | *3,338 | *3,617 | 3,838 | 3,814 |
| Other income | **105** | 163 | 137 | 124 | 112 |
| Total non-interest income | **4,868** | *4,153 | *4,917 | 4,996 | 4,800 |
| **Operating and other expenses** | | | | | |
| Salaries and related expenses | **4,097** | **4,209 | **4,239 | **4,467 | **4,926 |
| Maintenance and depreciation of buildings and equipment | **1,376** | 1,350 | 1,404 | 1,423 | 1,407 |
| Amortization and impairment of intangible assets and goodwill | **-** | - | - | 7 | 12 |
| Other expenses | **3,487** | **,*2,562 | **,*2,499 | **1,680 | **1,718 |
| Total operating and other expenses | **8,960** | *8,121 | *8,142 | 7,577 | 8,063 |
| Profit from continued operations before taxes | **4,201** | 4,254 | 4,554 | 4,692 | 3,953 |
| Provision for taxes on profit from continued operations | **2,009** | 1,959 | 2,229 | 1,978 | 1,584 |
| Profit from continued operations after taxes | **2,192** | 2,295 | 2,325 | 2,714 | 2,369 |
| The Bank's share in profits of equity-basis investees, after taxes | **4** | 17 | 12 | 21 | 9 |
| Net profit from continued operations | **2,196** | 2,312 | 2,337 | 2,735 | 2,378 |
| Net profit from a discontinued operation | **364** | 314 | 274 | 280 | 327 |

* Reclassified. Expenses in respect of insurance for Sale Law guarantees are stated as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item.

** Pursuant to the directives of the Bank of Israel, certain actuarial cost components of employee benefits were reclassified from salary expenses to other expenses. For further details, see Note 1D(3) to the Financial Statements.

(1) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations, including restatement of comparative figures. For details, see Note 1G to the Financial Statements.

Table 8-1: Consolidated statement of profit and loss for the years 2014-2018 – multi-period data[1] (continued)

| | For the year ended December 31 | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | NIS millions | | | | |
| **Net profit** | | | | | |
| Before attribution to non-controlling interests | **2,560** | 2,626 | 2,611 | 3,015 | 2,705 |
| Loss (profit) attributed to non-controlling interests | **35** | 34 | 17 | 67 | 8 |
| Attributed to shareholders of the Bank | **2,595** | 2,660 | 2,628 | 3,082 | 2,713 |
| **Earnings per ordinary share in NIS** | | | | | |
| **Basic earnings** | | | | | |
| Net profit attributed to shareholders of the Bank | **1.95** | 2 | 1.98 | 2.32 | 2.05 |
| Net profit attributed to shareholders of the Bank from continued operations | **1.68** | 1.76 | 1.77 | 2.11 | 1.80 |
| Net profit attributed to shareholders of the Bank from a discontinued operation | **0.27** | 0.24 | 0.21 | 0.21 | 0.25 |
| **Diluted earnings** | | | | | |
| Net profit attributed to shareholders of the Bank | **1.94** | 1.99 | 1.97 | 2.31 | 2.04 |
| Net profit attributed to shareholders of the Bank from continued operations | **1.67** | 1.75 | 1.76 | 2.10 | 1.79 |
| Net profit attributed to shareholders of the Bank from a discontinued operation | **0.27** | 0.24 | 0.21 | 0.21 | 0.25 |

(1) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations, including restatement of comparative figures. For details, see Note 1G to the Financial Statements.

Table 8-2: Consolidated balance sheet for the years 2014-2018 – multi-period data[1]

| | December 31 | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | NIS millions | | | | |
| **Assets** | | | | | |
| Cash and deposits with banks | **84,459** | 86,093 | 80,367 | 64,964 | 54,961 |
| Securities | **56,116** | 65,416 | 71,429 | 62,865 | 58,758 |
| Securities borrowed or purchased under agreements to resell | **708** | 684 | 375 | 119 | 476 |
| Credit to the public | **286,265** | 269,505 | 263,841 | 271,765 | 258,175 |
| Allowance for credit losses | **(3,758)** | (3,652) | (3,963) | (4,285) | (4,068) |
| Net credit to the public | **282,507** | 265,853 | 259,878 | 267,480 | 254,107 |
| Credit to governments | **2,428** | 2,292 | 2,561 | 2,564 | 1,861 |
| Investments in equity-basis investees | **103** | 198 | 150 | 142 | 132 |
| Buildings and equipment | **3,111** | 3,123 | 3,097 | 3,157 | 3,194 |
| Intangible assets and goodwill | **-** | - | - | - | 7 |
| Assets in respect of derivative instruments | **10,534** | 12,013 | 11,916 | 12,789 | 16,244 |
| Other assets | **5,850** | 5,323 | 5,677 | 6,017 | 7,626 |
| Assets attributed to a discontinued operation | **15,110** | 13,429 | 12,655 | 11,541 | 10,428 |
| Total assets | **460,926** | 454,424 | 448,105 | 431,638 | 407,794 |
| | | | | | |
| **Liabilities and capital** | | | | | |
| Deposits from the public | **352,260** | 347,344 | 338,494 | 321,718 | 297,221 |
| Deposits from banks | **4,528** | 3,649 | 4,077 | 4,542 | 4,322 |
| Deposits from the government | **208** | 320 | 345 | 354 | 455 |
| Securities lent or sold under agreements to repurchase | **-** | 367 | 484 | 83 | 42 |
| Bonds and subordinated notes | **30,024** | 29,058 | 33,560 | 34,475 | 33,671 |
| Liabilities in respect of derivative instruments | **9,676** | 12,049 | 12,587 | 13,806 | 16,777 |
| Other liabilities | **11,841** | 11,199 | 9,840 | 8,393 | 9,426 |
| Liabilities attributed to a discontinued operation | **14,733** | 14,434 | 14,493 | 15,048 | 14,269 |
| Total liabilities | **423,270** | 418,420 | 413,880 | 398,419 | 376,183 |
| | | | | | |
| Shareholders' equity | **37,544** | 35,863 | 34,047 | 33,032 | 31,361 |
| Non-controlling interests | **112** | 141 | 178 | 187 | 250 |
| Total capital | **37,656** | 36,004 | 34,225 | 33,219 | 31,611 |
| Total liabilities and capital | **460,926** | 454,424 | 448,105 | 431,638 | 407,794 |

(1) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations, including restatement of comparative figures. For details, see Note 1G to the Financial Statements.

## 8.2. Statement of profit and loss and balance sheet – multi-quarter data

Table 8-3: Quarterly consolidated statement of profit and loss for the years 2017-2018 – multi-quarter data[1]

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| | NIS millions | | | | | | | |
| Interest income | **2,975** | **2,895** | **3,274** | **2,528** | 2,751 | 2,467 | 2,944 | 2,451 |
| Interest expenses | **(685)** | **(667)** | **(972)** | **(442)** | (590) | (376) | (779) | (444) |
| Net interest income | **2,290** | **2,228** | **2,302** | **2,086** | 2,161 | 2,091 | 2,165 | 2,007 |
| Provision (income) for credit losses | **189** | **118** | **90** | **216** | (11) | (8) | 138 | 83 |
| Net interest income after provision for credit losses | **2,101** | **2,110** | **2,212** | **1,870** | 2,172 | 2,099 | 2,027 | 1,924 |
| **Non-interest income** | | | | | | | | |
| Non-interest financing income (expenses) | **450** | **406** | **361** | **228** | 172 | 156 | 139 | 185 |
| Fees | **826** | ***822** | ***844** | ***826** | *824 | *836 | *803 | *875 |
| Other income | **45** | **13** | **25** | **22** | 29 | 36 | 57 | 41 |
| Total non-interest income | **1,321** | ***1,241** | ***1,230** | ***1,076** | *1,025 | *1,028 | *999 | *1,101 |
| **Operating and other expenses** | | | | | | | | |
| Salaries and related expenses | **971** | **1,020** | **1,062** | **1,044** | **1,025 | **1,037 | **1,050 | **1,097 |
| Maintenance and depreciation of buildings and equipment | **349** | **341** | **343** | **343** | 345 | 330 | 342 | 333 |
| Other expenses | **1,657** | ***623** | ***629** | ***578** | **,*826 | **,*875 | **,*440 | **,*421 |
| Total operating and other expenses | **2,977** | ***1,984** | ***2,034** | ***1,965** | *2,196 | *2,242 | *1,832 | *1,851 |
| Profit from continued operations before taxes | **445** | **1,367** | **1,408** | **981** | 1,001 | 885 | 1,194 | 1,174 |
| Provision for taxes on profit from continued operations | **424** | **548** | **593** | **444** | 448 | 528 | 489 | 494 |
| Profit from continued operations after taxes | **21** | **819** | **815** | **537** | 553 | 357 | 705 | 680 |
| The Bank's share in profits (losses) of equity-basis investees, after taxes | **(4)** | **-** | **4** | **4** | 4 | 5 | 4 | 4 |
| Net profit from continued operations | **17** | **819** | **819** | **541** | 557 | 362 | 709 | 684 |
| Net profit from a discontinued operation | **85** | **109** | **93** | **77** | 47 | 90 | 102 | 75 |

* Reclassified.

** Pursuant to the directives of the Bank of Israel, certain actuarial cost components of employee benefits were reclassified from salary expenses to other expenses. For further details, see Note 1D(3).

(1) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations, including restatement of comparative figures. For details, see Note 1G to the Financial Statements.

Table 8-3: Quarterly consolidated statement of profit and loss for the years 2017-2018 – multi-quarter data[1] (continued)

| | **2018** | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| | NIS millions | | | | | | | |
| **Net profit** | | | | | | | | |
| Before attribution to non-controlling interests | **102** | **928** | **912** | **618** | 604 | 452 | 811 | 759 |
| Loss (profit) attributed to non-controlling interests | **(5)** | **22** | **8** | **10** | 8 | 17 | 1 | 8 |
| Attributed to shareholders of the Bank | **97** | **950** | **920** | **628** | 612 | 469 | 812 | 767 |
| **Earnings per ordinary share in NIS** | | | | | | | | |
| **Basic earnings** | | | | | | | | |
| Net profit attributed to shareholders of the Bank from continued operations | **0.02** | **0.63** | **0.62** | **0.41** | 0.42 | 0.29 | 0.53 | 0.52 |
| Net profit attributed to shareholders of the Bank from a discontinued operation | **0.06** | **0.08** | **0.07** | **0.06** | 0.04 | 0.07 | 0.07 | 0.06 |
| **Diluted earnings** | | | | | | | | |
| Net profit attributed to shareholders of the Bank from continued operations | **0.01** | **0.63** | **0.62** | **0.41** | 0.42 | 0.29 | 0.53 | 0.51 |
| Net profit attributed to shareholders of the Bank from a discontinued operation | **0.06** | **0.08** | **0.07** | **0.06** | 0.04 | 0.07 | 0.07 | 0.06 |

(1) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations, including restatement of comparative figures. For details, see Note 1G to the Financial Statements.

Table 8-4: Consolidated balance sheet as at the end of each quarter in the years 2017-2018 – multi-quarter data[1]

| | 2018 | | | |
|---|---|---|---|---|
| | Q4 | Q3 | Q2 | Q1 |
| | NIS millions | | | |
| **Assets** | | | | |
| Cash and deposits with banks | **84,459** | **77,622** | **83,261** | **78,125** |
| Securities | **56,116** | **57,943** | **59,616** | **61,508** |
| Securities borrowed or purchased under agreements to resell | **708** | **887** | **628** | **608** |
| Credit to the public | **286,265** | **279,536** | **276,148** | **274,553** |
| Allowance for credit losses | **(3,758)** | **(3,730)** | **(3,690)** | **(3,760)** |
| Net credit to the public | **282,507** | **275,806** | **272,458** | **270,793** |
| Credit to governments | **2,428** | **2,309** | **2,329** | **2,476** |
| Investments in equity-basis investees | **103** | **108** | **108** | **101** |
| Buildings and equipment | **3,111** | **2,994** | **3,026** | **3,044** |
| Assets in respect of derivative instruments | **10,534** | **9,928** | **10,732** | **12,273** |
| Other assets | **5,850** | **5,659** | **5,342** | **5,282** |
| Assets attributed to a discontinued operation | **15,110** | **14,665** | **13,866** | **13,985** |
| Total assets | **460,926** | **447,921** | **451,366** | **448,195** |
| | | | | |
| **Liabilities and capital** | | | | |
| Deposits from the public | **352,260** | **341,775** | **345,717** | **344,703** |
| Deposits from banks | **4,528** | **4,357** | **3,846** | **3,102** |
| Deposits from the government | **208** | **292** | **297** | **385** |
| Securities lent or sold under agreements to repurchase | **-** | **11** | **10** | **6** |
| Bonds and subordinated notes | **30,024** | **28,647** | **29,949** | **26,214** |
| Liabilities in respect of derivative instruments | **9,676** | **9,164** | **9,939** | **11,436** |
| Other liabilities | **11,841** | **11,163** | **10,434** | **10,857** |
| Liabilities attributed to a discontinued operation | **14,733** | **14,794** | **14,394** | **15,276** |
| Total liabilities | **423,270** | **410,203** | **414,586** | **411,979** |
| | | | | |
| Shareholders' equity | **37,544** | **37,613** | **36,654** | **36,084** |
| Non-controlling interests | **112** | **105** | **126** | **132** |
| Total capital | **37,656** | **37,718** | **36,780** | **36,216** |
| Total liabilities and capital | **460,926** | **447,921** | **451,366** | **448,195** |

(1) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations, including restatement of comparative figures. For details, see Note 1G to the Financial Statements.

Table 8-4: Consolidated balance sheet as at the end of each quarter in the years 2017-2018 – multi-quarter data[1] (continued)

| | 2017 | | | |
|---|---|---|---|---|
| | Q4 | Q3 | Q2 | Q1 |
| | NIS millions | | | |
| **Assets** | | | | |
| Cash and deposits with banks | 86,093 | 85,596 | 81,948 | 77,073 |
| Securities | 65,416 | 64,173 | 70,479 | 74,874 |
| Securities borrowed or purchased under agreements to resell | 684 | 629 | 429 | 144 |
| Credit to the public | 269,505 | 266,046 | 263,963 | 261,520 |
| Allowance for credit losses | (3,652) | (3,690) | (3,714) | (3,810) |
| Net credit to the public | 265,853 | 262,356 | 260,249 | 257,710 |
| Credit to governments | 2,292 | 2,337 | 2,243 | 2,265 |
| Investments in equity-basis investees | 198 | 197 | 155 | 154 |
| Buildings and equipment | 3,123 | 2,987 | 2,999 | 3,034 |
| Assets in respect of derivative instruments | 12,013 | 12,457 | 12,766 | 12,262 |
| Other assets | 5,323 | 5,329 | 5,199 | 5,433 |
| Assets attributed to a discontinued operation | 13,429 | 13,754 | 13,267 | 12,898 |
| Total assets | 454,424 | 449,815 | 449,734 | 445,847 |
| | | | | |
| **Liabilities and capital** | | | | |
| Deposits from the public | 347,344 | 342,740 | 340,761 | 337,510 |
| Deposits from banks | 3,649 | 3,044 | 3,979 | 3,949 |
| Deposits from the government | 320 | 320 | 411 | 489 |
| Securities lent or sold under agreements to repurchase | 367 | 627 | 620 | 98 |
| Bonds and subordinated notes | 29,058 | 29,411 | 30,736 | 31,171 |
| Liabilities in respect of derivative instruments | 12,049 | 12,406 | 13,376 | 12,815 |
| Other liabilities | 11,199 | 10,578 | 9,346 | 9,725 |
| Liabilities attributed to a discontinued operation | 14,434 | 14,944 | 14,876 | 15,012 |
| Total liabilities | 418,420 | 414,070 | 414,105 | 410,769 |
| | | | | |
| Shareholders' equity | 35,863 | 35,591 | 35,458 | 34,909 |
| Non-controlling interests | 141 | 154 | 171 | 169 |
| Total capital | 36,004 | 35,745 | 35,629 | 35,078 |
| Total liabilities and capital | 454,424 | 449,815 | 449,734 | 445,847 |

(1) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations, including restatement of comparative figures. For details, see Note 1G to the Financial Statements.

## 8.3. Material developments in income and expenses by quarter

Table 8-5: Quarterly developments in total net financing profit*

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| | NIS millions | | | | | | | |
| Interest income | **2,975** | **2,895** | **3,274** | **2,528** | 2,751 | 2,467 | 2,944 | 2,451 |
| Interest expenses | **(685)** | **(667)** | **(972)** | **(442)** | (590) | (376) | (779) | (444) |
| Net interest income | **2,290** | **2,228** | **2,302** | **2,086** | 2,161 | 2,091 | 2,165 | 2,007 |
| Non-interest financing income (expenses) | **450** | **406** | **361** | **228** | 172 | 156 | 139 | 185 |
| Total reported financing profit | **2,740** | **2,634** | **2,663** | **2,314** | 2,333 | 2,247 | 2,304 | 2,192 |
| Excluding effects not from regular activity: | | | | | | | | |
| Income from realization and adjustments to fair value of bonds | **73** | **9** | **30** | **68** | 2 | 26 | 49 | 49 |
| Profit (loss) from investments in shares | **160** | **167** | **27** | **49** | 49 | 39 | 32 | 65 |
| Gains (losses) in respect of loans sold | **(2)** | **-** | **40** | **18** | - | - | - | 4 |
| Adjustments to fair value of derivative instruments(1) | **(35)** | **96** | **41** | **(38)** | 35 | (25) | (37) | (13) |
| Financing income (expenses) from tax hedging of investments overseas(2) | **17** | **6** | **55** | **(5)** | 6 | (2) | (14) | 16 |
| Total income from regular financing activity(3) | **2,527** | **2,356** | **2,470** | **2,222** | 2,241 | 2,209 | 2,274 | 2,071 |

* Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

(1) The effect of the measurement of profit and loss in derivative instruments constituting part of the Bank's asset and liability management strategy on a fair-value basis, versus measurement on an accrual basis.

(2) The effect of hedging the asymmetry in the tax liability in respect of exchange-rate differences in investments in subsidiaries overseas, which are not included in the income base for the calculation of the provision for tax, in contrast to exchange-rate differences in respect of financing sources. The Bank hedges against tax exposure in respect of investments overseas by establishing surplus financing sources against such investments.

(3) Financing profit excluding extraordinary effects, and excluding effects arising mainly from the timing of recording in accounting. Of which, in respect of the effects of changes in the CPI: income of NIS 5 million in the fourth quarter of 2018; income of NIS 19 million in the third quarter of 2018; income of NIS 138 million in the second quarter of 2018; an expense of NIS 34 million in the first quarter of 2018; income of NIS 15 million in the fourth quarter of 2017; an expense of NIS 67 million in the third quarter of 2017; income of NIS 114 million in the second quarter of 2017; and an expense of NIS 24 million in the first quarter of 2017.

Table 8-6: Cumulative provision for credit losses in respect of debts and in respect of off-balance sheet credit instruments, by quarter**(1)

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| | NIS millions | | | | | | | |
| Individual provision for credit losses | **293** | **167** | **222** | **153** | 314 | 176 | 202 | 170 |
| Decrease in individual allowance for credit losses and recovery of charged off debts | **(217)** | **(289)** | **(228)** | **(256)** | (345) | (409) | (255) | (250) |
| Net individual provision (income) for credit losses | **76** | **(122)** | **(6)** | **(103)** | (31) | (233) | (53) | (80) |
| Net provision in respect of the collective allowance for credit losses and net charge-offs | **113** | **240** | **96** | **319** | 20 | 225 | 191 | 163 |
| Total provision (income) for credit losses* | **189** | **118** | **90** | **216** | (11) | (8) | 138 | 83 |
| * Of which: | | | | | | | | |
| Net provision (income) for credit losses in respect of commercial credit risk | **81** | **(37)** | **(17)** | **87** | (176) | (125) | (6) | (26) |
| Net provision (income) for credit losses in respect of housing credit risk | **9** | **20** | **6** | **5** | (5) | (4) | - | (5) |
| Net provision for credit losses in respect of other private credit risk | **95** | **135** | **103** | **124** | 171 | 120 | 144 | 114 |
| Net provision (income) for credit losses in respect of risk of credit to banks and governments | **4** | **-** | **(2)** | **-** | (1) | 1 | - | - |
| Total provision (income) for credit losses | **189** | **118** | **90** | **216** | (11) | (8) | 138 | 83 |
| Provision as a percentage of total credit to the public***: | | | | | | | | |
| Percentage of individual provision (income) for credit losses | **0.41%** | **0.24%** | **0.32%** | **0.22%** | 0.47% | 0.27% | 0.31% | 0.26% |
| Gross provision for credit losses as a percentage of the average recorded balance of credit to the public**** | **0.57%** | **0.59%** | **0.46%** | **0.69%** | 0.50% | 0.61% | 0.60% | 0.51% |
| Provision for credit losses as a percentage of the average recorded balance of credit to the public | **0.27%** | **0.17%** | **0.13%** | **0.32%** | (0.02%) | (0.01%) | 0.21% | 0.13% |
| Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public | **0.28%** | **0.15%** | **0.25%** | **0.11%** | 0.11% | 0.03% | 0.34% | 0.38% |
| Net charge-offs in respect of credit to the public as a percentage of the allowance for credit losses in respect of credit to the public | **21.29%** | **10.94%** | **18.32%** | **8.18%** | 7.89% | 2.06% | 24.23% | 26.14% |

** Including in respect of housing loans examined according to the extent of arrears.
*** Annualized.
**** The gross provision for credit losses is the total provision for credit losses, excluding the decrease in the individual allowance for credit losses and recovery of charged off debts.
(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

Table 8-7: Details of fees and other income, by quarter[1]

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| | NIS millions | | | | | | | |
| **Fees** | | | | | | | | |
| Account management fees | **231** | **230** | **227** | **232** | 238 | 233 | 232 | 240 |
| Securities activity | **196** | **174** | **182** | **189** | 186 | 189 | 183 | 203 |
| Credit cards, net | **64** | **81** | **70** | **67** | 67 | 75 | 63 | 64 |
| Credit handling | **45** | **47** | **76** | **55** | 45 | 55 | 53 | 81 |
| Financing transaction fees | **114** | ***115** | ***111** | ***110** | *114 | *109 | *103 | *110 |
| Other fees | **176** | **175** | **178** | **173** | 174 | 175 | 169 | 177 |
| Total fees | **826** | ***822** | ***844** | ***826** | *824 | *836 | *803 | *875 |
| **Other income** | **45** | **13** | **25** | **22** | 29 | 36 | 57 | 41 |
| Total fee income and other income | **871** | ***835** | ***869** | ***848** | *853 | *872 | *860 | *916 |

* Reclassified.

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

Table 8-8: Details of operating and other expenses, by quarter*

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| | NIS millions | | | | | | | |
| **Salary expenses** | | | | | | | | |
| Salaries[1][2] | **938** | **890** | **952** | **960** | 931 | 940 | 961 | 989 |
| Bonuses and share-based compensation | **33** | **130** | **110** | **84** | 94 | 97 | 89 | 108 |
| Total wages | **971** | **1,020** | **1,062** | **1,044** | 1,025 | 1,037 | 1,050 | 1,097 |
| **Maintenance and depreciation of buildings and equipment[1]** | **349** | **341** | **343** | **343** | 345 | 330 | 342 | 333 |
| **Others[1][2][3][4]** | **1,657** | **623** | **629** | **578** | 826 | 875 | 440 | 421 |
| Total | **2,977** | **1,984** | **2,034** | **1,965** | 2,196 | 2,242 | 1,832 | 1,851 |

* Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

(1) A total of NIS 30 million was included in 2018 in respect of the discontinuation of activity at Bank Hapoalim Switzerland (a total of NIS 131 million in 2017).

(2) In 2017, a total of approximately NIS 288 million was reclassified from salary expenses to other expenses, in accordance with ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" (approximately NIS 68 million in the first quarter of 2017, approximately NIS 69 million in the second quarter of 2017, approximately NIS 73 million in the third quarter of 2017, and approximately NIS 78 million in the fourth quarter of 2017).

(3) In the fourth quarter of 2018, includes an expense in the amount of NIS 194 million in respect of legal expenses in connection with the investigation of the Bank Group's business with American customers and the investigation concerning FIFA (a total of NIS 142 million in the third quarter of 2018, a total of NIS 103 million in the second quarter of 2018, a total of NIS 87 million in the first quarter of 2018, a total of NIS 38 million in the fourth quarter of 2017, a total of NIS 10 million in the third quarter of 2017, a total of NIS 19 million in the second quarter of 2017, and a total of NIS 22 million in the first quarter of 2017).

(4) In the fourth quarter of 2018, includes an expense in the amount of NIS 952 million in respect of expenses in connection with the investigation of the Bank Group's business with American customers and the investigation concerning FIFA (income in the amount of NIS 14 million in the third quarter of 2018, an expense in the amount of NIS 50 million in the second quarter of 2018, an expense in the amount of NIS 61 million in the first quarter of 2018, an expense in the amount of NIS 268 million in the fourth quarter of 2017, an expense in the amount of NIS 290 million in the third quarter of 2017, income in the amount of NIS 28 million in the second quarter of 2017, and income in the amount of NIS 27 million in the first quarter of 2017).

Table 8-9: Principal data by quarter[6]

| | For the three months ended | | | | |
|---|---|---|---|---|---|
| | **December 31, 2018** | September 30, 2018 | June 30, 2018 | March 31, 2018 | December 31, 2017 |
| **Main performance indicators** | | | | | |
| Return of net profit from continued operations on equity attributed to shareholders of the Bank[1][4][5] | **0.13%** | 9.41% | 9.42% | 6.26% | 6.41% |
| Return of net profit from continued operations on equity attributed to shareholders of the Bank excluding extraordinary items[1][2][4][5] | **10.04%** | 9.76% | 9.42% | 6.96% | 9.89% |
| Return of net profit on equity attributed to shareholders of the Bank[1] | **1.04%** | 10.67% | 10.52% | 7.16% | 6.96% |
| Return of net profit on equity attributed to shareholders of the Bank excluding extraordinary items[1][2] | **11.02%** | 11.02% | 10.52% | 7.86% | 10.45% |
| Net profit attributed to shareholders of the Bank excluding extraordinary items[1] | **991** | 980 | 920 | 688 | 908 |
| Financing margin from regular activity[1][3] | **2.48%** | 2.29% | 2.40% | 2.17% | 2.17% |

(1) Calculated on an annualized basis.
(2) Does not include expenses in respect of the update of the provision in connection with the investigation of the Bank Group's business with American customers, and costs in respect of the discontinuation of activity in Switzerland.
(3) Financing profit from regular activity (see the Report of the Board of Directors and Board of Management, in the section "Material developments in income, expenses, and other comprehensive income") divided by total financial assets after allowance for credit losses, net of non-interest bearing balances in respect of credit cards.
(4) Comparative figures, including credit of the Isracard Group, were restated in order to present a discontinued operation separately from continued operations. For further details, see Note 1G to the Financial Statements.
(5) The return of net profit from continued operations, after separation from Isracard, may be influenced by processes of adjustment of capital in respect of the subtraction of risk-adjusted assets in the amount of approximately NIS 12 billion, as a result of the separation, and additional adjustments.
(6) Does not include the data of the Isracard Group, which constitutes a discontinued operation. Comparative figures have been restated accordingly. For details, see Note 1G to the Financial Statements.

## 8.4. Rates of interest income and expenses

Table 8-10: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses*[1]

| | For the year ended December 31 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2018** | | | 2017 | | | 2016 | | |
| | Average balance[2] | Interest income | Rate of income | Average balance[2] | Interest income | Rate of income | Average balance[2] | Interest income | Rate of income |
| | NIS millions | | % | NIS millions | | % | NIS millions | | % |
| **A. Average balances and interest rates** | | | | | | | | | |
| **Interest-bearing assets** | | | | | | | | | |
| Credit to the public[3]: | | | | | | | | | |
| In Israel | **257,510** | **10,063** | **3.91%** | 243,297 | 9,198 | 3.78% | 243,587 | 8,677 | 3.56% |
| Outside Israel | **15,278** | **778** | **5.09%** | 16,183 | 696 | 4.30% | 21,248 | 789 | 3.71% |
| Total | **272,788** | **[4]10,841** | **3.97%** | 259,480 | [4]9,894 | 3.81% | 264,835 | [4]9,466 | 3.57% |
| Credit to governments: | | | | | | | | | |
| In Israel | **2,440** | **70** | **2.87%** | 2,320 | 57 | 2.46% | 2,471 | 54 | 2.19% |
| Outside Israel | **-** | **-** | **-** | 11 | - | - | 203 | - | - |
| Total | **2,440** | **70** | **2.87%** | 2,331 | 57 | 2.45% | 2,674 | 54 | 2.02% |
| Deposits with banks: | | | | | | | | | |
| In Israel | **3,983** | **105** | **2.64%** | 7,153 | 130 | 1.82% | 4,417 | 75 | 1.70% |
| Outside Israel | **343** | **(18)** | **(5.25%)** | 869 | (11) | (1.27%) | 2,474 | (25) | (1.01%) |
| Total | **4,326** | **87** | **2.01%** | 8,022 | 119 | 1.48% | 6,891 | 50 | 0.73% |
| Deposits with central banks: | | | | | | | | | |
| In Israel | **48,191** | **56** | **0.12%** | 42,102 | 43 | 0.10% | 34,306 | 36 | 0.10% |
| Outside Israel | **9,256** | **179** | **1.93%** | 13,614 | 151 | 1.11% | 13,536 | 70 | 0.52% |
| Total | **57,447** | **235** | **0.41%** | 55,716 | 194 | 0.35% | 47,842 | 106 | 0.22% |
| Securities borrowed or purchased under agreements to resell: | | | | | | | | | |
| In Israel | **746** | **-** | **-** | 474 | - | - | 368 | - | - |
| Outside Israel | **-** | **-** | **-** | - | - | - | - | - | - |
| Total | **746** | **-** | **-** | 474 | - | - | 368 | - | - |

* Includes balances attributed to a discontinued operation. For details, see Note 1G to the Financial Statements.
(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).
(3) Before deduction of the average balance sheet balance of the allowance for credit losses. Includes impaired debts that do not accrue interest income.
(4) Fees in the amount of NIS 524 million were included in interest income in the period ended December 31, 2018 (December 31, 2017: NIS 591 million; December 31, 2016: NIS 605 million).

Table 8-10: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses*[1] (continued)

| | For the year ended December 31 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2018** | | | 2017 | | | 2016 | | |
| | Average balance[2] | Interest income | Rate of income | Average balance[2] | Interest income | Rate of income | Average balance[2] | Interest income | Rate of income |
| | NIS millions | | % | NIS millions | | % | NIS millions | | % |
| **A. Average balances and interest rates** (continued) | | | | | | | | | |
| **Interest-bearing assets** (continued) | | | | | | | | | |
| Bonds held to maturity and available for sale[3]: | | | | | | | | | |
| In Israel | **47,277** | **598** | **1.26%** | 54,636 | 493 | 0.90% | 48,320 | 393 | 0.81% |
| Outside Israel | **4,591** | **116** | **2.53%** | 5,943 | 108 | 1.82% | 7,759 | 113 | 1.46% |
| Total | **51,868** | **714** | **1.38%** | 60,579 | 601 | 0.99% | 56,079 | 506 | 0.90% |
| Bonds held for trading[3]: | | | | | | | | | |
| In Israel | **7,073** | **39** | **0.55%** | 6,837 | 23 | 0.34% | 7,831 | 16 | 0.20% |
| Outside Israel | **70** | **2** | **2.86%** | 81 | 1 | 1.23% | 98 | 1 | 1.02% |
| Total | **7,143** | **41** | **0.57%** | 6,918 | 24 | 0.35% | 7,929 | 17 | 0.21% |
| Other assets: | | | | | | | | | |
| In Israel | **665** | **1** | **0.15%** | 478 | - | - | 158 | 1 | 0.63% |
| Outside Israel | **-** | **-** | **-** | - | - | - | - | - | - |
| Total | **665** | **1** | **0.15%** | 478 | - | - | 158 | 1 | 0.63% |
| Total interest-bearing assets | **397,423** | **11,989** | **3.02%** | 393,998 | 10,889 | 2.76% | 386,776 | 10,200 | 2.64% |
| Non-interest-bearing debtors in respect of credit cards | **15,776** | **-** | **-** | 15,172 | - | - | 14,738 | - | - |
| Other non-interest-bearing assets[4] | **38,663** | **-** | **-** | 40,961 | - | - | 39,702 | - | - |
| Total assets | **451,862** | **-** | **-** | 450,131 | - | - | 441,216 | - | - |
| Total interest-bearing assets attributed to activities outside Israel | **29,538** | **1,057** | **3.58%** | 36,701 | 945 | 2.57% | 45,318 | 948 | 2.09% |

* Includes balances attributed to a discontinued operation. For details, see Note 1G to the Financial Statements.
(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).
(3) The average balance of unrealized gains (losses) from adjustments to fair value of bonds held for trading and of gains (losses) from bonds available for sale, which are included in equity within accumulated other comprehensive income, in the amount of NIS (80) million for the year ended December 31, 2018 (December 31, 2017: NIS 299 million; December 31, 2016: NIS 315 million), were deducted from (added to) the average balance of bonds available for sale and of bonds held for trading.
(4) Includes derivative instruments and other non-interest-bearing assets; net of the allowance for credit losses.

Table 8-10: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses*[1] (continued)

| | For the year ended December 31 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2018** | | | 2017 | | | 2016 | | |
| | Average balance[2] | Interest expenses | Rate of expense | Average balance[2] | Interest expenses | Rate of expense | Average balance[2] | Interest expenses | Rate of expense |
| | NIS millions | | % | NIS millions | | % | NIS millions | | % |
| **A. Average balances and interest rates** (continued) | | | | | | | | | |
| **Interest-bearing liabilities** | | | | | | | | | |
| Deposits from the public: | | | | | | | | | |
| In Israel | **195,874** | **1,331** | **0.68%** | 197,184 | 938 | 0.48% | 191,741 | 757 | 0.39% |
| On demand | **85,968** | **97** | **0.11%** | 83,714 | 54 | 0.06% | 75,304 | 94 | 0.12% |
| Fixed term | **109,906** | **1,234** | **1.12%** | 113,470 | 884 | 0.78% | 116,437 | 663 | 0.57% |
| Outside Israel | **14,644** | **305** | **2.08%** | 16,903 | 179 | 1.06% | 21,985 | 147 | 0.67% |
| On demand | **3,831** | **62** | **1.62%** | 6,691 | 34 | 0.51% | 8,766 | 31 | 0.35% |
| Fixed term | **10,813** | **243** | **2.25%** | 10,212 | 145 | 1.42% | 13,219 | 116 | 0.88% |
| Total | **210,518** | **1,636** | **0.78%** | 214,087 | 1,117 | 0.52% | 213,726 | 904 | 0.42% |
| Deposits from the government: | | | | | | | | | |
| In Israel | **189** | **6** | **3.17%** | 209 | 7 | 3.35% | 315 | 10 | 3.17% |
| Outside Israel | **-** | **-** | **-** | - | - | - | 78 | - | - |
| Total | **189** | **6** | **3.17%** | 209 | 7 | 3.35% | 393 | 10 | 2.54% |
| Deposits from central banks: | | | | | | | | | |
| In Israel | **-** | **-** | **-** | - | - | - | - | - | - |
| Outside Israel | **388** | **10** | **2.58%** | 53 | - | - | 113 | - | - |
| Total | **388** | **10** | **2.58%** | 53 | - | - | 113 | - | - |
| Deposits from banks: | | | | | | | | | |
| In Israel | **3,530** | **9** | **0.25%** | 3,012 | 1 | 0.03% | 3,332 | 8 | 0.24% |
| Outside Israel | **272** | **14** | **5.15%** | 368 | 12 | 3.26% | 759 | 19 | 2.50% |
| Total | **3,802** | **23** | **0.60%** | 3,380 | 13 | 0.38% | 4,091 | 27 | 0.66% |
| Securities lent or sold under agreements to repurchase: | | | | | | | | | |
| In Israel | **-** | **-** | **-** | - | - | - | - | - | - |
| Outside Israel | **79** | **-** | **-** | 439 | (2) | (0.46%) | 332 | 1 | 0.30% |
| Total | **79** | **-** | **-** | 439 | (2) | (0.46%) | 332 | 1 | 0.30% |

* Includes balances attributed to a discontinued operation. For details, see Note 1G to the Financial Statements.
(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

Table 8-10: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses*[1] (continued)

| | For the year ended December 31 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2018** | | | 2017 | | | 2016 | | |
| | Average balance[2] | Interest expenses | Rate of expense | Average balance[2] | Interest expenses | Rate of expense | Average balance[2] | Interest expenses | Rate of expense |
| | NIS millions | | % | NIS millions | | % | NIS millions | | % |
| **A. Average balances and interest rates** (continued) | | | | | | | | | |
| **Interest-bearing liabilities** (continued) | | | | | | | | | |
| Bonds: | | | | | | | | | |
| In Israel | **27,983** | **1,051** | **3.76%** | 29,824 | 951 | 3.19% | 34,054 | 996 | 2.92% |
| Outside Israel | **583** | **34** | **5.83%** | 1,173 | 100 | 8.53% | 1,568 | 65 | 4.15% |
| Total | **28,566** | **1,085** | **3.80%** | 30,997 | 1,051 | 3.39% | 35,622 | 1,061 | 2.98% |
| Other liabilities: | | | | | | | | | |
| In Israel | **971** | **11** | **1.13%** | 560 | 5 | 0.89% | 69 | 4 | 5.80% |
| Outside Israel | **3** | **-** | **-** | 4 | 1 | 25.00% | 19 | - | - |
| Total | **974** | **11** | **1.13%** | 564 | 6 | 1.06% | 88 | 4 | 4.55% |
| Total interest-bearing liabilities | **244,516** | **2,771** | **1.13%** | 249,729 | 2,192 | 0.88% | 254,365 | 2,007 | 0.79% |
| Non-interest-bearing deposits from the public | **133,233** | **-** | **-** | 126,690 | - | - | 112,561 | - | - |
| Non-interest-bearing creditors in respect of credit cards | **14,877** | **-** | **-** | 14,463 | - | - | 14,274 | - | - |
| Other non-interest-bearing liabilities[3] | **22,320** | **-** | **-** | 23,913 | - | - | 26,102 | - | - |
| Total liabilities | **414,946** | **-** | **-** | 414,795 | - | - | 407,302 | - | - |
| Total capital means | **36,916** | **-** | **-** | 35,336 | - | - | 33,914 | - | - |
| Total liabilities and capital means | **451,862** | **-** | **-** | 450,131 | - | - | 441,216 | - | - |
| Interest spread | **-** | **-** | **1.89%** | - | - | 1.88% | - | - | 1.85% |
| Net return on interest-bearing assets[4] | | | | | | | | | |
| In Israel | **367,885** | **8,524** | **2.32%** | 357,297 | 8,042 | 2.25% | 341,458 | 7,477 | 2.19% |
| Outside Israel | **29,538** | **694** | **2.35%** | 36,701 | 655 | 1.78% | 45,318 | 716 | 1.58% |
| Total | **397,423** | **9,218** | **2.32%** | 393,998 | 8,697 | 2.21% | 386,776 | 8,193 | 2.12% |
| Total interest-bearing liabilities attributed to activities outside Israel | **15,969** | **363** | **2.27%** | 18,940 | 290 | 1.53% | 24,854 | 232 | 0.93% |

* Includes balances attributed to a discontinued operation. For details, see Note 1G to the Financial Statements.
(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).
(3) Includes derivative instruments.
(4) Net return – net interest income divided by total interest-bearing assets.

Table 8-10: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses*[1] (continued)

| | For the year ended December 31 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2018** | | | 2017 | | | 2016 | | |
| | Average balance[2] | Interest income/ (expenses) | Rate of income/ (expense) | Average balance[2] | Interest income/ (expenses) | Rate of income/ (expense) | Average balance[2] | Interest income/ (expenses) | Rate of income/ (expense) |
| | NIS millions | | % | NIS millions | | % | NIS millions | | % |
| **B. Average balances and interest rates – additional information regarding interest-bearing assets and liabilities attributed to activity in Israel** | | | | | | | | | |
| **Israeli currency unlinked** | | | | | | | | | |
| Total interest-bearing assets | **281,533** | **7,865** | **2.79%** | 271,247 | 7,489 | 2.76% | 258,828 | 7,160 | 2.77% |
| Total interest-bearing liabilities | **150,111** | **(484)** | **(0.32%)** | 153,254 | (514) | (0.34%) | 151,430 | (529) | (0.35%) |
| Interest spread | **-** | **-** | **2.47%** | - | - | 2.42% | - | - | 2.42% |
| **Israeli currency CPI-linked** | | | | | | | | | |
| Total interest-bearing assets | **47,443** | **1,960** | **4.13%** | 46,221 | 1,543 | 3.34% | 49,425 | 1,334 | 2.70% |
| Total interest-bearing liabilities | **39,895** | **(1,289)** | **(3.23%)** | 37,897 | (1,022) | (2.70%) | 41,212 | (1,027) | (2.49%) |
| Interest spread | **-** | **-** | **0.90%** | - | - | 0.64% | - | - | 0.21% |
| **Foreign currency (includes Israeli currency linked to foreign currency)** | | | | | | | | | |
| Total interest-bearing assets | **38,909** | **1,107** | **2.85%** | 39,829 | 912 | 2.29% | 33,205 | 758 | 2.28% |
| Total interest-bearing liabilities | **38,541** | **(635)** | **(1.65%)** | 39,638 | (366) | (0.92%) | 36,869 | (219) | (0.59%) |
| Interest spread | **-** | **-** | **1.20%** | - | - | 1.37% | - | - | 1.69% |
| **Total activity in Israel** | | | | | | | | | |
| Total interest-bearing assets | **367,885** | **10,932** | **2.97%** | 357,297 | 9,944 | 2.78% | 341,458 | 9,252 | 2.71% |
| Total interest-bearing liabilities | **228,547** | **(2,408)** | **(1.05%)** | 230,789 | (1,902) | (0.82%) | 229,511 | (1,775) | (0.77%) |
| Interest spread | **-** | **-** | **1.92%** | - | - | 1.96% | - | - | 1.94% |

* Includes balances attributed to a discontinued operation. For details, see Note 1G to the Financial Statements.
(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

Table 8-10: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses*[1] (continued)

| | **Year ended December 31, 2018, versus year ended December 31, 2017** | | | Year ended December 31, 2017, versus year ended December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Increase (decrease) due to change[2] | | Net change | Increase (decrease) due to change[2] | | Net change |
| | Quantity | Price | | Quantity | Price | |
| | NIS millions | | | | | |
| **C. Analysis of changes in interest income and expenses** | | | | | | |
| **Interest-bearing assets** | | | | | | |
| Credit to the public: | | | | | | |
| In Israel | **555** | **310** | **865** | (11) | 532 | 521 |
| Outside Israel | **(46)** | **128** | **82** | (218) | 125 | (93) |
| Total | **509** | **438** | **947** | (229) | 657 | 428 |
| Other interest-bearing assets: | | | | | | |
| In Israel | **(29)** | **152** | **123** | 106 | 65 | 171 |
| Outside Israel | **(122)** | **152** | **30** | (43) | 133 | 90 |
| Total | **(151)** | **304** | **153** | 63 | 198 | 261 |
| Total interest income | **358** | **742** | **1,100** | (166) | 855 | 689 |
| **Interest-bearing liabilities** | | | | | | |
| Deposits from the public: | | | | | | |
| In Israel | **(9)** | **402** | **393** | 26 | 155 | 181 |
| Outside Israel | **(47)** | **173** | **126** | (54) | 86 | 32 |
| Total | **(56)** | **575** | **519** | (28) | 241 | 213 |
| Other interest-bearing liabilities: | | | | | | |
| In Israel | **(31)** | **144** | **113** | (119) | 65 | (54) |
| Outside Israel | **(31)** | **(22)** | **(53)** | (45) | 71 | 26 |
| Total | **(62)** | **122** | **60** | (164) | 136 | (28) |
| Total interest expenses | **(118)** | **697** | **579** | (192) | 377 | 185 |
| Total interest income less interest expenses | **476** | **45** | **521** | 26 | 478 | 504 |

* Includes balances attributed to a discontinued operation. For details, see Note 1G to the Financial Statements.
(1) Data presented after the effect of hedging derivative instruments.
(2) The change attributed to change in quantity was calculated by multiplying the new price by the change in quantity. The change attributed to change in price was calculated by multiplying the old quantity by the change in price.

**Active market**

A market in which transactions in an asset or liability are executed at a sufficient frequency and volume in order to provide pricing information on a regular basis.

**Auxiliary corporation**

A corporation that is not a banking corporation in its own right, and which engages only in an area of activity permitted to the banking corporation that controls it, excluding occupations permitted exclusively to banking corporations by law.

**B2B**

**Business to business -** A business activity in which a product is sold or a service is provided by an organization to another organization.

**B2C**

Business to consumer - A business activity in which a product is sold or a service is provided to an end consumer.

**Basel**

**Basel 2/Basel 3 -** Risk-management regulations for banks, established by the Basel Committee, which is engaged in supervision and setting standards for supervision of banks worldwide.

**Bid-ask spread**

The spread between a proposed buying and selling price. Essentially, the difference between the highest price that a buyer is willing to pay for an asset and the lowest price at which the seller is willing to sell it.

**Bond**

A security that constitutes a certificate of obligation to pay a debt, in which the issuer promises to pay the holder of the bond the amount of principal issued, plus interest/coupon payments, at fixed intervals or upon fulfillment of a particular condition; a financial instrument that can be used by the government and by firms to borrow money from the public.

**BOT**

**Build Operate Transfer -** A financing arrangement for public projects, in which a private entity receives a franchise from a public entity to finance, plan, build, and operate a public facility for a limited period, at the completion of which the ownership of the project is transferred to the government.

**Business continuity management**

An organization-wide approach encompassing policy guidelines, standards, and procedures aimed at protecting the Bank's existence as an active, robust financial entity and its ability to continue to provide optimal service to its customers even during emergencies and significant operational disruptions.

**CPI**

**Consumer price index -** An index published by the Central Bureau of Statistics, measuring monthly changes in the prices of products and services that compose the "consumption basket" of an average family.

**CVA**

**Credit valuation adjustment -** Calculation of credit risk in derivatives reflecting the potential expected loss to the bank in the event of default by the counterparty.

**Debt**

A contractual right to receive money on demand, or at fixed or fixable intervals, recognized in the balance sheet of the banking corporation as an asset (e.g. deposits with banks, bonds, securities purchased or sold in agreements to resell, credit to the public, credit to the government, etc.). Debts do not include deposits with the Bank of Israel or assets in respect of derivative instruments.

**Debt contingent on collateral**

Debt expected to be repaid exclusively from the collateral, where there are no other available and reliable repayment sources.

**Derivative instrument**

A financial instrument or future contract, the value of which is derived from the value of an underlying asset, for which a market exists wherein its value can be determined.

**Discontinued operation**

Pursuant to United States standards, a discontinued operation is defined as a component of an entity (or a group of components) that fulfills the following two criteria:

1. The component fulfills the criteria of "held for sale."

2. It constitutes (a) a strategic change; and (b) it has, or will have, a material effect on the activity and financial results of the entity.

**Dodd-Frank Act**

Federal regulations passed by the United States Congress in 2010 with the aim of increasing stability, transparency, and efficiency in the US financial system, particularly in the market for OTC derivatives. Government agencies have been established in accordance with these regulations in order to supervise, enforce, and monitor the performance of large financial entities.

**Dormant shares**

Shares held directly by the company itself. These shares are denied rights to capital or voting in the company.

**Duration**

Weighted average term to maturity of the principal and interest payments on a bond.

**Emergency**

A period in which the economy is operated in emergency mode, in accordance with a government resolution, the declaration of a special situation on the home front, or declaration of a state of emergency by the Supervisor.

**EMIR**

European Market Infrastructure Regulation - Regulation adopted by the European Union in 2012 in order to increase stability, transparency, and efficiency in derivatives markets in the European Union, particularly in the market for OTC derivatives.

**FATCA**

Foreign Accounts Tax Compliance Act - An American law aimed at improving tax enforcement, pursuant to which financial entities outside the United States must report to the US tax authorities on accounts maintained with them and owned by anyone obligated to report to these authorities, even if not a resident of the United States.

**FDIC**

Federal Deposit Insurance Corporation - The Federal Deposit Insurance Corporation in the United States.

**Financial instrument**

Any contract that creates a financial asset in one entity and a financial liability or equity instrument in another entity.

**Fixed-term deposits**

Deposits in which the depositor does not have the right or authorization to withdraw funds for at least six days from the date of the deposit.

**GRI**

Global Reporting Initiative - An international standard for reporting on sustainability and corporate social responsibility.

**ICAAP**

Internal Capital Adequacy Assessment Process - An internal process to assess capital adequacy and establish strategy to ensure the capital adequacy of banking corporations. The process is designed to ensure that banking corporations hold adequate capital to support all of the risks inherent in their activities, and that they develop and apply appropriate processes to manage risks. Among other elements, the process includes setting capital targets, performing capital planning processes, and examining the condition of capital under a variety of extreme scenarios.

**Indebtedness**

As defined in Proper Conduct of Banking Business Directive 313.

**LDC**

Less developed country - A country classified by the World Bank as having low or medium revenue.

**LTV**

Loan to value ratio - The amount of a loan (including an unutilized approved credit facility) as a percentage of the pledged asset (according to the banking corporation's share in the pledge).

**Middle market**

Commercial activity conducted with mid-sized businesses, usually in the United States.

**MTM**

Mark to market - Revaluation of a derivative instrument based on price quotes from relevant markets, or in the absence thereof, based on alternative evaluation methods.

**NPL**

Non-performing loan - Impaired credit not accruing interest income.

**Obligo**

Total liabilities of the customer to the Bank.

**Off-balance sheet credit**

Instruments such as commitments to grant credit and guarantees (excluding derivative instruments).

**On-demand deposits**

Deposits other than fixed-term deposits.

**Option**

A contract between two parties (the option writer and the option buyer); the option writer grants the option buyer the right to buy or sell a particular asset for a predetermined price, usually at a predetermined time.

**OTC derivative**

Over-the-counter derivative - A derivative instrument in which financial institutions contract during the ordinary course of business, for which a market exists wherein its value can be determined.

**Phantom shares**

An instrument granting cash compensation based on the value of shares of the company, without entitlement to receive the share.

**Securitization**

Non-bank capital raising by a financial entity through special bonds, performed through the acquisition of expected cash flows aggregated via pooling and converted into issuable securities.

**Subordinated notes**

Notes in which rights are subordinate to the claims of all other creditors of the banking corporation, excluding other notes and notes of the same type.

**Supervisory capital**

Supervisory capital comprises two tiers: Tier 1 capital and Tier 2 capital, as defined in Proper Conduct of Banking Business Directive 202.

**Syndication**

A transaction in which several lenders jointly grant a loan to a single borrower, but each lender provides a loan to the borrower in a specific amount and has the right to repayment by the borrower. Groups of lenders frequently finance loans together when the amount granted is higher than the amount that any one lender is willing to lend.

**Tier 1 capital**

Going-concern capital, including common equity Tier 1 capital and additional Tier 1 capital, as defined in Proper Conduct of Banking Business Directive 202.

**Tier 2 capital**

Gone-concern capital, as defined in Proper Conduct of Banking Business Directive 202.

**VaR**

**Value at risk -** A commonly used statistical model for the quantification of market risks. The model uses historical data to assess the maximum expected loss in respect of a particular position or portfolio, for a defined time horizon, at a defined significance level.

**Volcker Rule**

The Volcker Rule is American legislation applicable to certain banking corporations, which imposes prohibitions and restrictions related to proprietary trading and investment activity and/or sponsorship of covered funds, as defined in the Volcker Rule.

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